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Capitol Picks Up The Pace Dixonville Oil Developme

Oil-weighted Capitol Energy Resources Ltd. says it achieved a significant milestone in the third quarter with Alberta Energy and Utilities Board approval for a waterflood pilot project at Dixonville in northwest Alberta.

Tiger Energy Limited on Feb. 28, 2005. Sales volumes from the Dixonville Montney "C" oil pool averaged 2,560 BOE per day during the third quarter of 2 have averaged 2,410 BOE year-to-date.

limiting the lon while it continu Dixonville assets, Production ar

Provincial regulator app Capitol Energy pilot prc n northwest Alberta

GARY, AB, SEPTEMBER 25, 2006

pito Capi SX: t it m t terflood pilot program on the thwest portion of the Dixon- e Montney "C" pool. In antic- tion of the approval, Capitol converted two producing oil lls to injectors and expects commence injecting water the middle of October. Water l be sourced down hole from Worsley zone, a zone imme-

During the past year, a nur

CAPITOL ENERGY RESOURCES LTD. 2006 was an outstanding year for Capitol Energy Resources Ltd. against a backdrop of volatile commodity prices, a rising cost structure and political uncertainty buffeting the industry. We focused on the factors we could control resulting in a 132% increase

Capitol Ene raises funds expansion p

CALGARY, AB, JULY 20, 2006

Capitol Energy Resource Ltd. ("Capitol") (TSX:CPX is pleased to report the closing of its previously announce "bought deal" private placemen of 4,945,000 common shares a a price of $4.75 per commo share, including 645,000 com mon shares issued pursuant t the exercise of an option grante to the underwriters at a price o $4.75 per share for gross proceed of approximately $23.5 million The shares are subject to a four month hold period such that th

Capitol Increases Reserves by 132%

CALGARY, AB, FEBRUARY 15, 2007

Capitol Energy Resources Ltd. ("Capitol" or the "Company") (TSX: CPX) is pleased to announce its 2006

basis). Based on EUB public data Dixonville Montney "C" oil pool largest conventional oil in place mulation discovered in Alberta i last 27 years

ADVISORY: Certain information about the Company presented in this annual report may constitute forward-looking statements under applicable securities laws, and may include references to non-GAAP measures. Please refer to pages 19 and 39 for special notes regarding non-GAAP measures and forward-looking statements.

CAPITOL ENERGY RESOURCES LTD. 2006 was an outstanding year for Capitol Energy Resources Ltd. against a backdrop of volatile commodity prices, a rising cost structure and political uncertainty buffeting the industry. We focused on the factors we could control resulting in a 132% increase of proved, probable plus possible reserves to 57.1 mmboe. Capitol has now delivered 11 consecutive quarters of production growth exiting 2006 with production of 4,200 boe/d. This represents 68% growth over the previous year's exit rate.

The Dixonville Montney "C" pool was discovered in 1999. The first horizontal wells were drilled into the pool

in 2003, triggering a multi-year drilling program. At the end of 2006, 86 wells in total were drilled in to the pool. Dixonville is an increasingly rare asset in Alberta: a light to medium oil pool with an estimated 263 million barrels of oil in place, the largest conventional oil pool found in Alberta in the last 27 years.

Thanks to 29 degree API oil and 100% working interest ownership of the entire key infrastructure, Capitol's $31.45 per boe operating netbacks were higher than the industry average. By controlling virtually 100% of the pool, we eliminate many of the partner issues that affect many developments.

The Dixonville pool has significant waterflood upside which we believe can boost recovery rates from 10% on primary to 20% to 30% with waterflood. We will use downhole formation water as the source for the waterflood program so as to negate any impact on surface water.

Capitol continued to pursue gas plays in the Dixonville area that complemented our oil production. During the fourth quarter, Capitol drilled and tied in 3.8 net wells at Helen. Optimization of existing gas processing and transportation infrastructure to handle the addi-

tional gas volumes should be completed by the end of the first quarter of 2007.

Each year, we subject all of our reserves to evaluation by an independent reserves engineer. Our 94% drilling success rate combined with waterflood response resulted in finding and development costs of $7.11 per boe of proved plus probable reserves. This is well below the peer three year average of $13.09* per boe.

There were other, non-operational successes in 2006. We raised $23.5 million in equity in July at $4.75 per share and listed our stock on the Toronto Stock Exchange. We received recognition from the Energy and Utilities Board for providing complete, timely submissions, which led to faster approvals. We adopted a shareholder's rights plan, with the aim of ensuring that all shareholders are treated fairly in the event of a takeover bid.

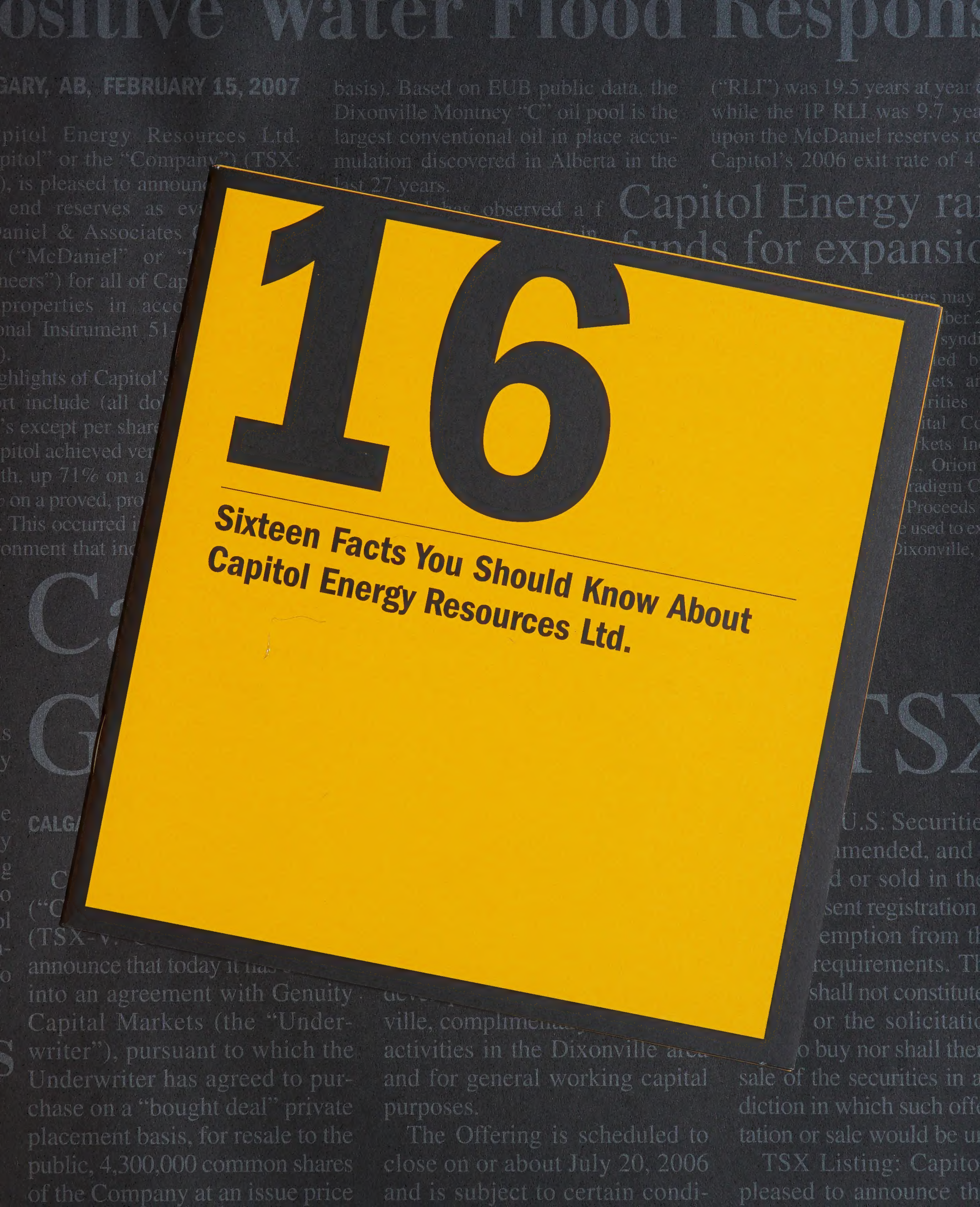
Capitol has plenty of room to grow with an inventory of 27.1 mmboe of possible reserves to move to the proved plus probable reserve category over time through the drilling of approximately 125 development locations and 25 exploration locations on 48,092 net acres of undeveloped land. Our healthy balance sheet and high netbacks provide us the flexibility to match

our capital spending program to opportunities as they present themselves.

We'll keep two rigs busy until spring breakup, drilling another 12 to 16 horizontal wells into the Dixonville pool. In addition, Capitol applied for one waterflood expansion area in the fourth quarter of 2006. We plan to apply for another expansion area in 2007. Water injection should commence on the first of these projects by year end 2007.

Capitol has a great set of profitable, growth-oriented assets and a strong team. We are excited about our prospects for 2007. Please join us at our Annual General Meeting at 3:00 PM (MDT) on Thursday, May 10, 2007, at the Metropolitan Centre in Calgary, where you'll have the chance to meet the Capitol team.

R.L. (Monty) Bowers
President and Chief Executive Officer
April 12, 2007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Sixteen Facts You Should Know About
Capitol Energy Resources Ltd.

While any company is much more than a collection of statistics, we've gathered a series of key facts that differentiate Capitol Energy Resources Ltd. These span a variety of perspectives, from the financial to the operational to the environmental. We hope that these facts, combined with the text and illustrations of this report, will provide the reader with a more complete appreciation of who we are, what we do and where we're going as a company.

Capitol is listed on the Toronto Stock Exchange as CPX , with 53 million basic shares outstanding.

53

Having $195 million of tax pools means the company is unlikely to be taxable for several years.

195

Capitol subjects 100% of its reserves to independent evaluation every year.

100

The volatility of commodity prices makes cost control and production growth crucial priorities in our industry. We need to expand production fast enough to offset the vagaries of commodity prices and minimize costs in all aspects of our operations. Capitol has excelled in both of these areas despite volatile prices for our products. We achieved 68% production growth between 2005 and 2006 and exceptional cost performance. Operating costs and finding and development cost performance were both very strong, at $7.10 per boe and $7.11 per proved plus probable boe respectively.

FINANCIAL HIGHLIGHTS

($ thousands except per share data)	2006	2005	2004
Petroleum and natural gas sales	$ 54,070	$ 19,803	$ 1,151
Cash flow from (used in) operations	28,292	8,283	(246)
Per share basic	0.56	0.21	(0.01)
Net income (loss)	1,216	9,000	(1,244)
Per share basic	0.02	0.23	(0.06)
Exploration and development additions	81,418	61,744	8,941
Corporate and asset acquisition	–	49,514	-
Net working capital (deficiency)	(39,580)	(10,403)	8,367
Total Assets	$ 190,498	$ 136,524	$ 29,665

Capitol has now delivered 11 consecutive calendar quarters of production growth. Capitol's 2006 exit production of 4,200 boe/d was a 68% increase over 2005 exit production.


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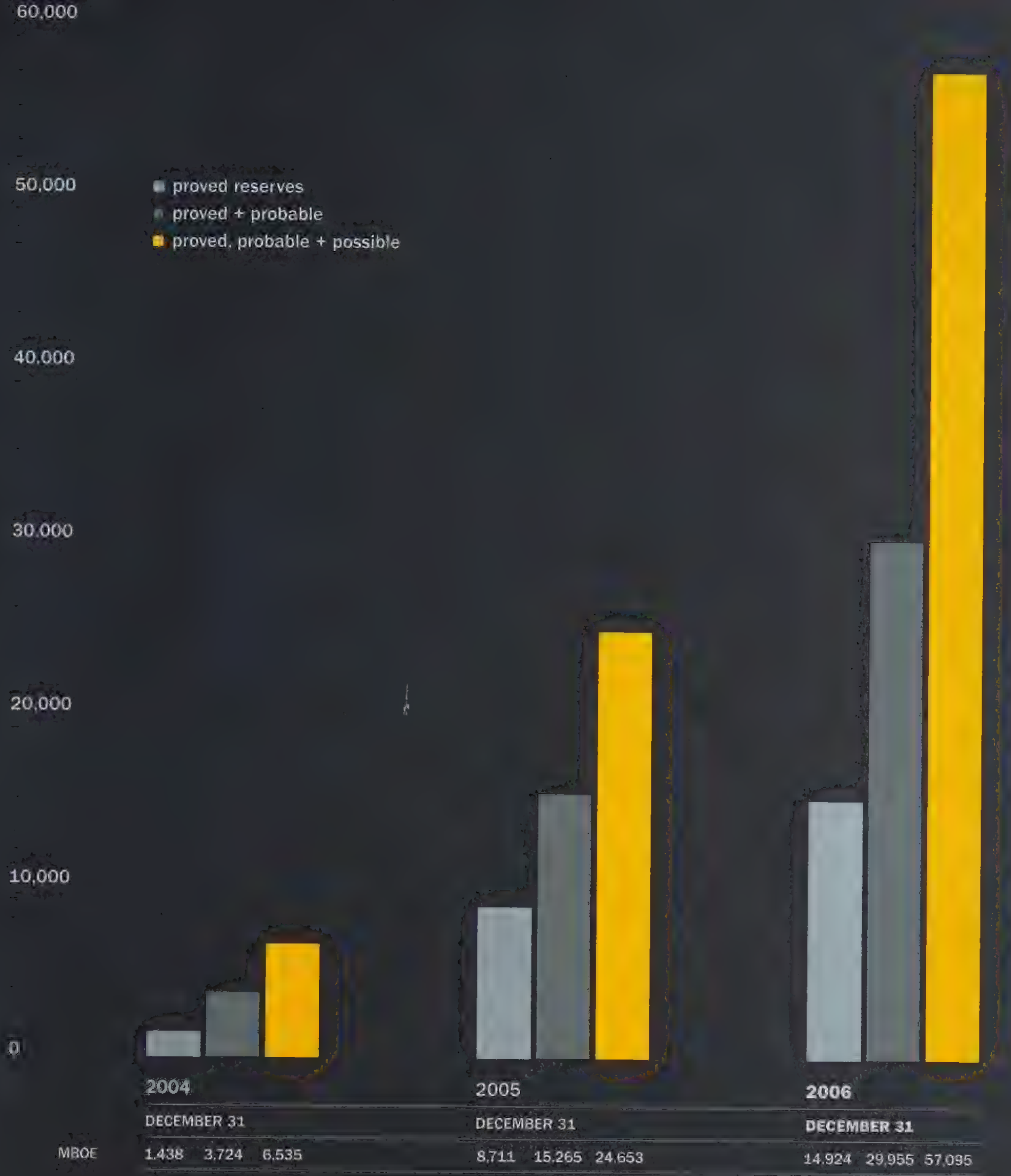
boe/d
2004
2005
2006
Q2
Q3
Q4
Q1
Q2
Q3
Q4
Q1
Q2
Q3
Q4
12
124
164
581
831
1,039
1,557
2,395
2,863
2,880
3,494

Successful infill drilling at Dixonville allowed Capitol to increase proved reserves by 71% and proved plus probable reserves by 96% compared with 2005. Capitol's proved plus probable reserve life index (RLI) was 19.5 years at year end 2006 while the proved RLI was 9.7 years based upon the McDaniel reserves report and Capitol's 2006 exit rate of 4,200 boe/d. Capitol replaced 2006 production by 6.8 times on a proved basis and 14.8 times on a proved plus probable basis.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proved reserves
proved + probable
proved, probable + possible
2004
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2005
DECEMBER 31
2006
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8,711 15,265 24,653
14,924 29,955 57,095

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DIXONVILLE MONTNEY "C" OILPOOL DEVELOPMENT Capitol's Dixonville Montney 'C' pool is the largest conventional oil pool discovered in Alberta in the last 27 years. The light to medium oil recovery is enhanced through implementation of a successful waterflood.

MONTNEY OIL RESERVOIR

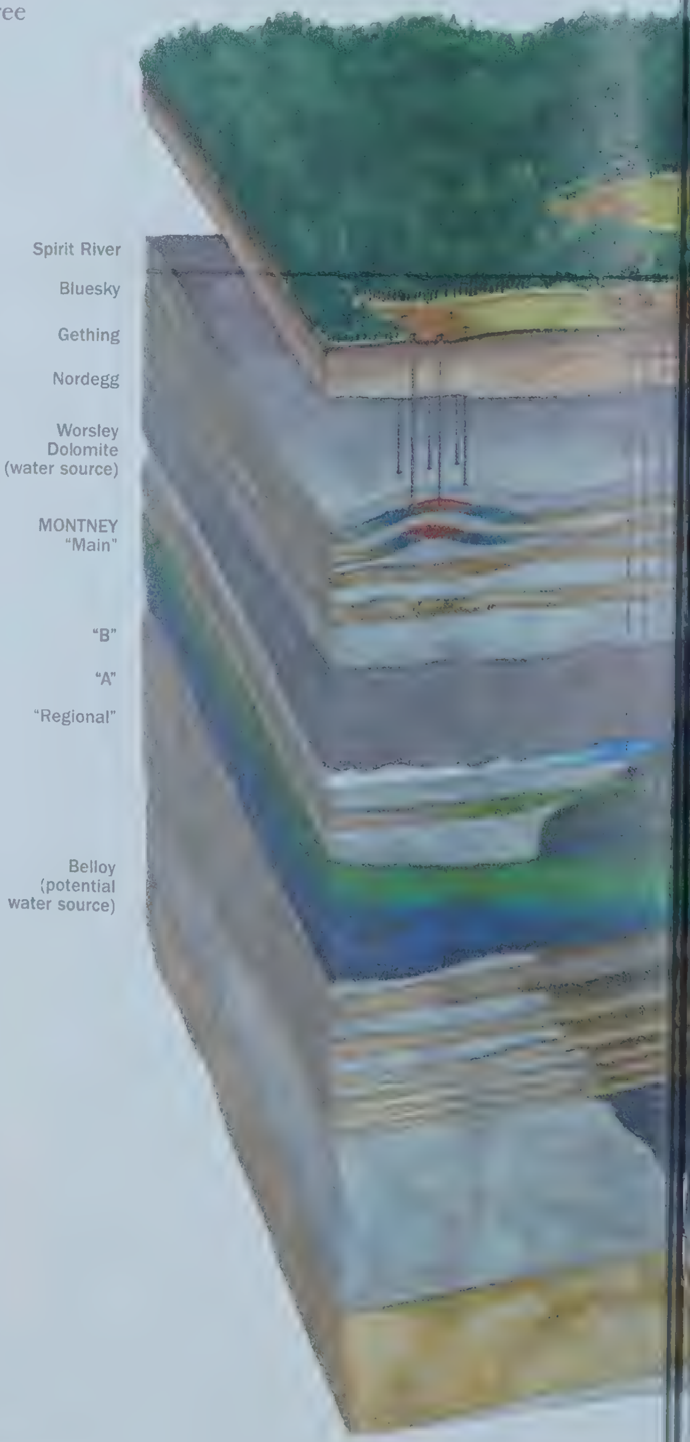
The Montney oil reservoir is stratigraphically trapped to the northeast beneath an impermeable shale. The pool dips to the southwest and eventually ends at an oil water contact. Compared to all other Montney oil reservoirs in Western Canada, the Dixonville Montney is a fine grained, sandstone with superior reservoir quality. Capitol produced light to medium oil from three units of the Montney formation: the "Main", the "B", and the "A". Oil also occurs below in the "Montney Regional" and above in the "Worsley" sandstone.

DIXONVILLE 2-25-86-26W5 OIL BATTERY & GAS COMPRESSION STATION

Capitol owns 100% of the oil and gas production facilities servicing the Dixonville Montney "C" pool. As currently designed, these facilities can process approximately 4,000 bbls/d and 1,000 bwpd and will be able to process added production through 2007.

DENSE HORIZONTAL DRILLING PATTERN

The pool occurs at an average depth of 865 meters. Wells are drilled to this depth and landed at an 89 degree angle then cased. The wel

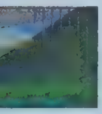


LEGEND

- coniferous forest
- dolomite
- farming community
- gas
- gas compressor station
- multiwell pads
- NOVA Pipeline
- oil
- sand
- shale
- shale
- water

is then drilled horizontally for an additional 1,100 to 1,400 meters and completed. Occasionally more than one horizontal leg is drilled from the same vertical wellbore. On the surface, these wells are drilled from central drilling pads to minimize environmental impact while lowering project costs. We estimate that optimal inter-well distances to maximize oil recovery are between 100 and 150 meters. In 2006, Capitol received EUB approval to drill wells to this density.

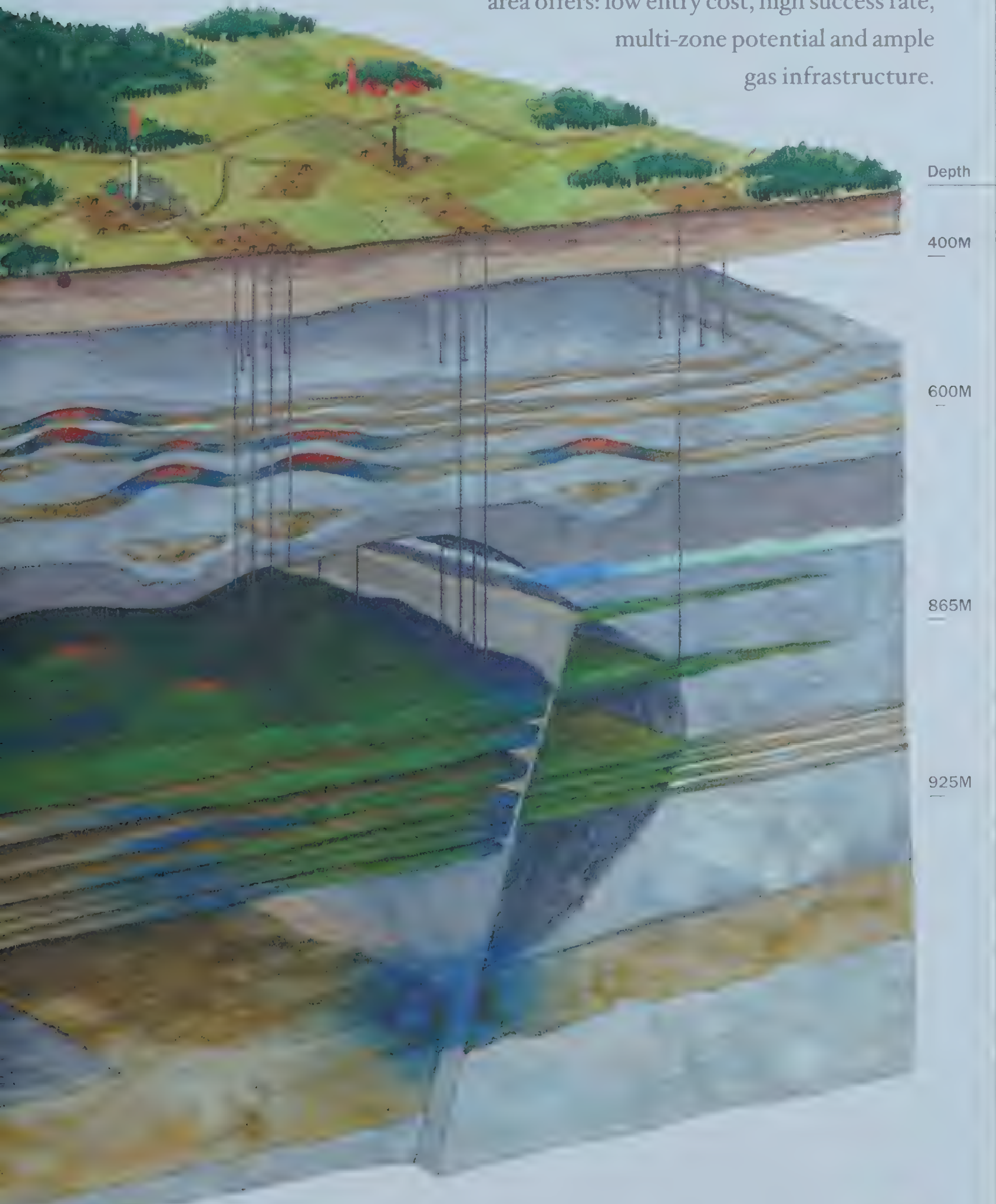
WORSLEY FORMATION WATER SOURCE & WATERFLOOD PILOT PAD



Water injection was initiated in October 2006 on the down-dip (southwest) side of the pool to enhance primary oil recovery. Water is coming from two sources: the Worsley formation; and from water produced at the 2-25 oil battery. The water is then pumped downhole through two horizontal wells. The waterflood will be expanded over the next three years. This process of enhanced oil recovery is expected to increase oil recovery from 10% without waterflood to between 20 and 30% of the 263 million barrels of original oil in place.

DIXONVILLE AREA SHALLOW GAS PROJECT

Sweet, dry, shallow gas occurs within the first 200 to 600 meters of the Dixonville regional area. Approximately 55 bcf has been produced over the last 30 years from the Peace River, Spirit River, Bluesky and Gething sandstone reservoirs. Capitol has drilled 13 exploratory wells, experiencing an 85% success rate. We'll continue to explore for gas as this area offers: low entry cost, high success rate, multi-zone potential and ample gas infrastructure.



Capitol drilled 51.7 net wells in 2006, of which 44 found oil, 5.3 found natural gas and 2.4 were dry holes. Our overall success rate was 94%, reflecting both the skills of our staff and the inherent predictability of our principle asset at the Dixonville Montney "C" pool. Capitol prefers to own a high working interest and operates a high percentage of its wells, providing us a cost advantage.

NET WELLS DRILLED

	2006	2005	2004
Oil	44.0	27.8	2.4
Natural gas	5.3	5.0	–
Dry	2.4	2.3	–
Total	51.7	35.1	2.4

R25W5
1 mile
Capitol land base
pool area
potential pool extension
Nova pipeline
free gas accumulations
battery
pre 2006 wells
water disposal or source wells
water injection extension area
water injection area
water injection lines
06 drilled wells
current and/or future water injection wells

Finding and development (F&D) performance has been very strong: $7.11 per 2P boe and $20.63 per 1P boe. Operating cost performance has been solid: $7.10 per boe in 2006, down from $8.17 per boe in 2005. High netbacks and low finding and development costs make Capitol a very efficient operator, with a recycle ratio of 4.4.

FINDING & DEVELOPMENT COSTS AND RECYCLE RATIO

Year ended Dec 31, 2006	Capital Expenditures[1] ($000s)	Change In Future Development Capital ($000s)	Total Capital ($000s)	Reserve Additions (mboe)	Traditional F&D[2] ($/boe)	NI 51-101 F&D[3] ($/boe)
Proved reserves						
Exploration and development	80,341	69,804	150,117	7,275	11.04	20.63
Total	80,341	69,804	150,117	7,275	11.04	20.63
Proved plus probable reserves						
Exploration and development	80,341	31,653	111,966	15,753	5.10	7.11
Total	80,341	31,653	111,966	15,753	5.10	7.11
2006 operating netback ($/boe)					$ 31.45	$ 31.45
2P 2006 Recycle ratio					6.2	4.4

1 Excludes asset retirement cost and capitalized stock based compensation

2 Calculated excluding changes in future development capital

3 Calculated as outlined in NI 51-101, including the change in future development capital from the prior year end reserves report

Thanks to 29 degree API oil and 100% working interest ownership of the entire key infrastructure, Capitol's $31.45 per boe netbacks were higher than the industry average. It is imperative that we control profitability per barrel by minimizing costs.

NETBACKS PER BOE

	2006	2005	2004
Average selling price	$ 50.87	$ 54.02	$ 43.39
Royalties, net of ARTC	(12.32)	(13.61)	(10.88)
Production and transportation	(7.10)	(8.17)	(9.76)
Realized netback	$ 31.45	$ 32.24	$ 22.75

$31.45

Governance is important at Capitol. Six of the seven members of Capitol's Board of Directors are independent:

Johannes J. Nieuwenburg
Chairman
Capitol Energy Resources Ltd.

R.L. (Monty) Bowers
President & CEO
Capitol Energy Resources Ltd.

Grant D. Billing
Chairman & CEO
Superior Plus LP

John A. Brussa
Partner
Burnet, Duckworth & Palmer LLP

James S.A. MacDonald
Chairman & Managing Partner
Enterprise Capital Management Inc.

Murray N. Nunns
Independent Businessman

Sheldon Reid
President & CEO
Cell–Loc Location Technologies Inc.

Capitol's senior management team has a combined 125 years of experience in the Canadian oil and gas business

125

Directors and officers are committed to the company's success, owning approximately 11% of the company's stock

11

Capitol meets or exceeds 100% of Corporate Governance requirements in respect to Health, Safety and Environment

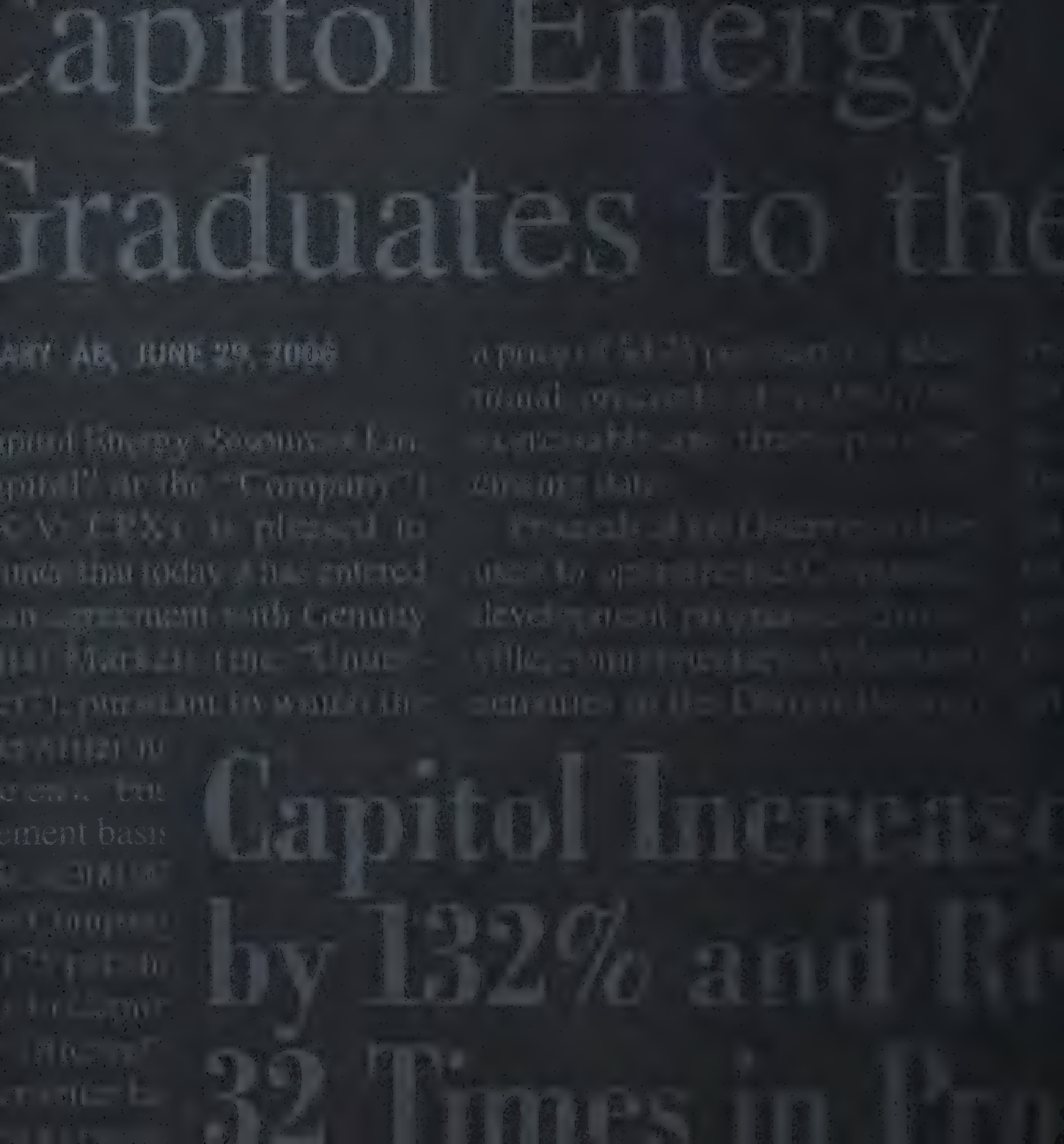
100

Conservative government looks to build a majority

Western Canada is one of the best regions in the world for hydrocarbon production and geopolitical stability. We are part of a web of relationships with other industry players, governments, suppliers, regulators and landowners.

Capitol participates in industry initiatives through such organizations as the Canadian Association of Petroleum Producers (CAPP) and the Small Energy Producers Association of Canada (SEPAC). These help us to keep abreast of changes in policy.

We also depend on provincial regulators to approve our various operational initiatives, like waterflood and down spacing. We have an excellent relationship with regulators, as demonstrated by the Energy and Utilities Board (EUB) acknowledging us for our prompt and thorough downspacing application in 2006.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We understand the challenges of working in a cyclical business. Those cycles bring volatility that lead to exciting opportunities.

Oil prices are set in a global marketplace and gas prices in a North American context. Producers have no control over the price of the oil and gas they sell except by hedging and selecting delivery points. As a result, we maximize project economics by minimizing those costs we can control, such as operating, transportation, finding and development costs.

As over 75% of our production is light to medium oil, we are not exposed to the discount that affects many heavy oil producers.

At December 31, 2006, Capitol had hedged 1,300 bbls of oil per day at an average $US WTI floor and ceiling price of $60.77/bbl and $71.95/bbl respectively and 2,000 gigajoules of gas per day was hedged at a $C floor price of $6.50/GJ and an average ceiling price of $9.44/GJ. Capitol has not hedged any production beyond 2007.

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LGARY, AB. MARCH 1, 2006

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We spend a lot of our time improving factors we can control, like maximizing production and minimizing our cost structure.

Capitol has established long term relationships with suppliers in order to manage costs. We contracted our major services for the 2006–2007 drilling season early in 2006.

In the face of rapidly escalating industry costs, we have reduced finding and development and operating costs, as well as general and administrative expense per boe.

Capitol manages operating risk by focusing its efforts on the Dixonville Montney 'C' oil pool. This concentrated, high quality asset base, high ownership percentage and operatorship of our properties gives us greater control over our destiny.

Our primary asset at Dixonville is in the early stage of development, utilizing new drilling technologies and new production equipment, both of which lead to lower maintenance costs.

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Retaining key staff is not just a matter of compensation. We work hard to create a safe and productive environment where employees enjoy coming to work.

While Capitol does compete for workers in a buoyant Alberta labour market, we have a core area that does not require a major construction project and are less exposed to labour shortages than some companies.

We have an experienced team, many of whom have worked together for years at other companies. We have experienced little staff turnover and have used short and long term incentives to retain our employees. We want Capitol to remain an enjoyable place to work.

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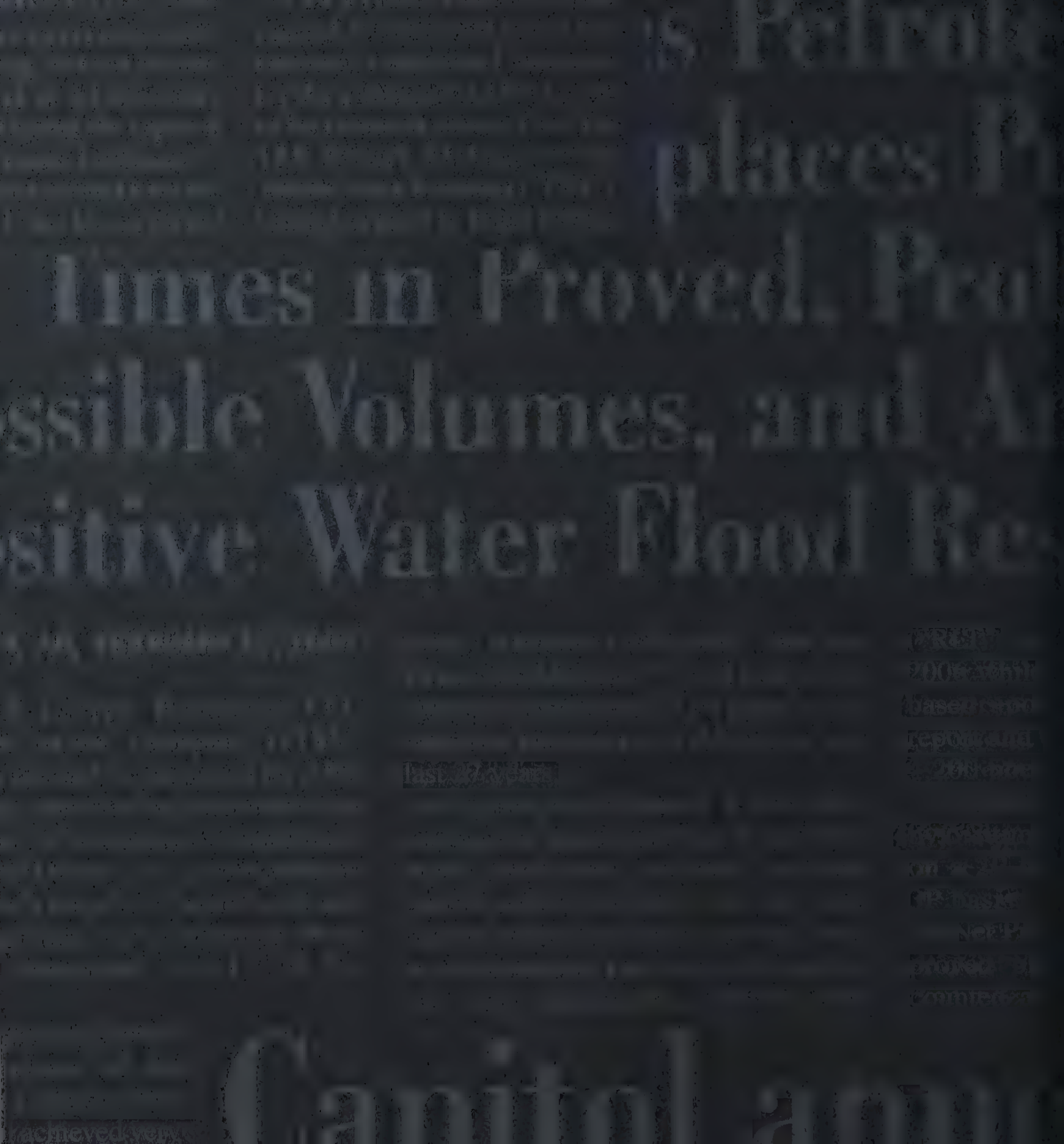
There are numerous ways a company can make money in the oil and gas business. Starting with a very high quality asset is one of the best foundations on which to build a strong, profitable company.

Capitol is fortunate to be developing and exploiting the largest oil pool discovered in Alberta in last 27 years and has grown production for the last 11 consecutive quarters. We have the financial flexibility to match capital expenditures to the business environment we face.

The federal government's decision to begin taxing income trusts in 2011 means that we will have less competition in future regarding the acquisition market than we have faced in the past.

Capitol has $195 million of tax pools, which provide several years before the company is likely to be taxable.

We can adapt various approaches to realize the value of our assets, including continued strong reserve and production growth or eventual sale of the company. Any such decision would be evaluated with the objective of maximizing shareholder returns.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Minimizing the environmental impact of our operations is not just a matter of regulatory compliance, it is an essential part of our business. Continued access to land requires good relationships with stakeholders.

Stewardship of the land, air and water is a key responsibility for all oil and gas companies. It matters to everyone touched by the industry's activities. Capitol prides itself on working with landowners to develop mutually productive relationships.

To minimize our impact on the land, Capitol uses pad drilling where several well heads are close together on the surface, but the well bores are drilled horizontally to different bottom hole locations. This drilling technique results in fewer surface land leases. Our waterflood project uses downhole formation water, not fresh surface water. Throughout our operations and in the office, we recycle wherever possible.

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ARY, AB, JULY 20, 2006

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• Capitol replaced 2006 production by 6.8 times on a 1P basis, 14.8 times on a 2P basis, and 31.5 times on a 3P basis.

• Net Present Value ("NPV") of total proved plus probable reserves discounted at 5% before tax increased 87% to $545,099 ($389,581 discounted at 10% before tax, up 69%).

• NPV of the proved, probable and possible reserves discounted at 5% before tax is $954,305 ($571,625 discounted at 10%)

• Finding, development and acquisition ("FD&A") costs were $7.11 per 2P boe and $20.63 per 1P boe based on preliminary unaudited financial results calculated pursuant to NI 51-101.

• Since the inception of the Company, FD&A costs are $10.76 per 2P boe including future development capital. Excluding future development capital, the Company's FD&A costs since inception are $6.48 per 2P boe.

Provincial regulator approve[s] Capitol Energy pilot project [in] northwest Alberta

CALGARY, AB, SEPTEMBER 25, 2006

Capitol Energy Resources Ltd. ("Capitol" or the "Company") (TSX: CPX), is pleased to report that it has received approval from the EUB to commence a waterflood pilot program on the southwest portion of the Dixonville Montney "C" pool. In anticipation of the approval, Capitol has converted two producing oil wells to injectors and expects to commence injecting water

During the past year, a number of independent reservoir engineering consultants have conducted a series of studies including lab work, reservoir simulation evaluations and reviews of analog pools. The results indicate that the Montney reservoir at Dixonville is amenable to a waterflood to maximize ultimate oil recovery. It was determined that a waterflood could increase total recoveries on a primary and secondary basis to 20 to 30 percent of the

Initially the plan is to [imple]ment a pilot waterflood over approximately 10 of the reservoir. Capitol [is opti]mistic about the wat[erflood] and expects to see fav[ourable] response from water i[njection] within two to twelve [months]. Favourable response [will be] indicated initially by in[creased] pressure and a reduction [in gas] oil ratios in the offsett[ing pro]ducing oil wells, follo[wed by] reductions in primary

[C]apitol Energy [clos]es [f]unds for expan[sion]

[CAL]GARY, AB, JULY 20, 2006

[C]apitol Energy Resources [Ltd]. ("Capitol") (TSX:CPX) [is p]leased to report the closing [of] its previously announced ["bo]ught deal" private placement [of] 4,945,000 common shares at [a p]rice of $4.75 per common [sha]re, including 645,000 com[mo]n shares issued pursuant to [the] exercise of an option granted [to t]he underwriters at a price of [$4.]75 per share for gross proceeds [of a]pproximately $23.5 million

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Capitol announc[es] strong reserves

CALGARY, AB, MARCH 1, 2006

Capitol Energy Resources Ltd. ("Capitol" or the "Company") (TSX-V: CPX), is pleased to announce its 2005 year-end reserves as evaluated by McDaniel & Associates Petroleum Consultants Ltd. ("McDaniel" or "Engineers") for all of Capitol's oil and gas properties in accordance with National Instrument 51-101 ("NI 51-101")

recovery rate of 7.8%. An[...] in Alberta have demonstra[ted a] recovery rate in excess o[f ...]

• Capitol has comple[ted] reservoir studies and wa[ter...] tests as the first steps to [...] a pilot water-flood at [...] increase ultimate oil reco[very...] believes the potential ex[...] tially increase oil recove[ry...] three times the primary r[...]

Capitol Increases Petroleum Reserv[es] by 132% and Replaces Production b[y] 32 Times in Proved, Probable and

Management's discussion and analysis ("MD&A") of Capitol Energy Resources Ltd. ("Capitol" or the "Company") financial results should be read in conjunction with the audited financial statements for the years ended December 31, 2006 and December 31, 2005 and the six month period ended December 31, 2004 ("Financial Statements"). The MD&A offers management's opinion of Capitol's historical financial and operating results and is dated and based on information available at March 8, 2007. Any prospective estimates are based on assumptions of future events and may be subject to change.

Capitol may use the terms "cash flow from operations", "cash flow", "cash flow per share", and "netbacks" which are not recognized measures under Canadian generally accepted accounting principles ("GAAP"). Management believes that cash flow and netbacks are useful supplemental measures in addition to net earnings as they provide an indication of the results generated by the Company's principal business activities. Investors are cautioned, however, that these measures should not be construed as an alternative to net earnings determined in accordance with GAAP. Capitol has provided a reconciliation in this MD&A of its method for calculating cash flow however readers are cautioned that cash flow as calculated by Capitol may differ from, and may not be comparable to, measures calculated by other companies.

Natural gas volumes have been converted to barrels of oil equivalent ("boe") at a ratio of six thousand cubic feet ("mcf") of natural gas to one barrel of oil equivalent. This conversion ratio is based upon an energy equivalent conversion method primarily applicable at the burner tip and does not represent value equivalence at the wellhead. Boe figures may be misleading, particularly if used in isolation.

All references to dollar values refer to Canadian dollars. All amounts in the narrative and tabular form are in thousands of dollars except $ per boe, $ per share amounts, shares, land holdings, and reserve volumes.

All common share and per share amounts for 2004 have been restated to retroactively reflect the consolidation of the Company's shares in May 2005.

Additional information relating to Capitol, including Capitol's Annual Information Form and annual Audited Financial Statements is available at http://www.sedar.com or on the Company's website at http://www.capitolenergy.ca.

COMPARABLE PERIODS

During 2004, Capitol changed its reporting year end from June 30 to December 31 to be consistent with its peer group of oil and gas companies that report on a calendar year basis. The transition year resulted in six months of operations that ended December 31, 2004.

Unless otherwise specified, all references in this MD&A for the 2006 and 2005 periods are for the years then ended and all references in this MD&A for the 2004 period are in respect of the six month period ended December 31, 2004.

2006 HIGHLIGHTS

2006 represented Capitol's third year of operations. During 2006, Capitol achieved significant growth in production, cash flow and reserves from the development of the Company's primary asset, the Dixonville Montney "C" oil pool. The successful 2006 Montney development drilling program increased Capitol's reserve estimates of original oil in place ("OOIP") to 263 million barrels as determined by the Company's independent reserves evaluator.

The Montney "C" pool is very large by recent standards and is still in the early stages of development, with a significant percentage of recoverable reserves in the probable and possible categories. Full development of the pool will require between 100 and 150 additional wells. Capitol believes it has sufficient bank lines and cash flow to continue the current pace of development without issuing more equity.

SIGNIFICANT HIGHLIGHTS OF 2006:

- Drilled 54 gross wells (51.7 net wells) including 44 horizontal wells at Dixonville for a 95% net success rate overall and a 100% success rate at Dixonville.
- Favourable drilling results, well performance and updated mapping at Dixonville resulted in increasing original oil in place by 28% to 263 mmbbls
- Average 2006 sales volumes were 2,913 boe per day an increase of 190% over 2005.
- Proved reserve volumes increased to 14,924 mboe at December 31, 2006, an increase of 71% over proved reserve volumes at December 31, 2005. Proved plus probable reserves increased to 29,955 mboe at December 31, 2006, an increase of over 96% from December 31, 2005.
- Finding, development and acquisition ("FD&A") costs were $20.63 per proved boe and $7.11 per proved plus probable boe calculated pursuant to National Instrument 51-101.
- Capitol's proved plus probable reserve life index ("RLI") was approximately 20 years at December 31, 2006 while the proved RLI was approximately 10 years based on year end production rates of 4,200 boe per day.
- Commenced a waterflood pilot in October 2006 on the Dixonville Montney "C" pool and applied in December 2006 to increase the waterflood area to approximately 20% of the Dixonville Montney "C" pool. Positive waterflood response led to the recognition of additional reserves at December 31, 2006.
- Maintained a favorable capital and operating cost structure during a period of rapid cost escalation and resource shortages in the industry.
- Received approval from the EUB to drill up to 32 wells per section with no inter well minimum distance restrictions to allow for the optimal development of the Dixonville pool with an average inter well spacing of approximately 100 meters.

– Received EUB approval in December to construct a sales line from the Dixonville Montney "C" Battery to the Clear Hills Nova meter station, allowing Capitol to eliminate third party processing fees on associated gas.

SELECTED ANNUAL INFORMATION

($ thousands except share and per share data)	2006	2005	2004
Production revenue net of royalties and ARTC	40,978	14,815	862
Cash flow from (used in) operations*	28,292	8,283	(246)
Per share, basic*	0.56	0.21	(0.01)
Net income (loss)	1,216	9,000	(1,244)
Per share, basic and diluted	0.02	0.23	(0.06)
Total assets	190,498	136,524	29,665

* non-GAAP measure

DISCUSSION OF RESULTS

SALES VOLUMES

(@ 6 mcf:1 boe)	2006	2005	2004
Oil (bbls/d)	2,177	835	134
Natural gas (mcf/d)	4,414	1,015	60
Total (boe/d)	2,913	1,004	144

Sales volumes for 2006 increased by 190% over 2005, from continued development at Dixonville, the full year impact of the 2005 capital program and the acquisition of Tiger Energy Limited ("Tiger") on February 28, 2005.

The increase in volumes for 2005 versus 2004 is primarily due to the acquisition of Tiger and development drilling during 2005.

For 2006, approximately 89% of Capitol's sales volumes were at Dixonville and 11% were from all other areas. Sales volumes in the fourth quarter of 2006 averaged 3,494 boe per day, an increase of approximately 124% over the fourth quarter of 2005 as a result of new production at Dixonville and Helen.

AVERAGE COMMODITY PRICES

	2006	2005	2004
Benchmarks			
West Texas Intermediate crude oil (US$/bbl)	66.21	56.56	46.08
Edmonton par crude oil (C$/bbl)	73.27	69.29	57.33
Natural gas (cash daily) at AECO (C$/GJ)	6.54	8.77	6.39
Exchange rate (US$/C$)	0.89	0.83	0.79
Realized Prices			
Oil ($/bbl)	55.66	53.79	44.03
Natural gas ($/mcf)	6.12	9.19	5.76

Global oil and gas prices escalated and remained strong during 2005 and the first half of 2006 due to political uncertainty in the middle east, strong demand for oil, combined with

supply outages from hurricane damage in the gulf coast of the United States. Oil prices declined sharply towards the end of 2006 as supply concerns diminished as predictions for a repeat of the 2005 hurricane season did not materialize. Natural gas prices declined sharply in 2006 from lower seasonal demand and high storage levels versus historic averages.

Capitol's realized crude oil prices at Dixonville averaged $55.66 per barrel for 2006 compared to $53.79 for 2005. Increasing supplies of heavier crude and limited refining capacity in Canada caused quality differentials for heavier crude compared to light sweet crude prices to widen throughout the year. As a result, Capitol's realized price was reduced by an average crude oil quality differential of $19.46 per barrel for the year ended December 31, 2006. The crude oil quality differential expanded to $20.03 per barrel in the fourth quarter of 2006 with a high of $20.99 per barrel in October.

For 2006, Capitol sold all of its oil and natural gas on the spot market and its prices fluctuated with changes in the pricing of the underlying commodities. Commencing in November 2006, Capitol entered into crude oil and natural gas commodity price costless collars to provide cash flow security for its 2007 capital expenditure budget. Additional information regarding the terms and pricing of Capitol's costless collars can be found in note 10 of Capitol's 2006 Financial Statements.

REVENUES

($ thousands)	2006	2005	2004
Oil	44,211	16,398	1,087
Natural gas	9,859	3,405	64
Production revenue	54,070	19,803	1,151
Interest	20	181	115
Total revenue	54,090	19,984	1,266

The increased production revenue in 2006 versus 2005 is primarily due to increased sales volumes noted above. The increase in production revenue for 2005 versus 2004 is due to the impact of full year results versus the 2004 reporting transition period, increased daily average production rates and higher commodity prices.

Interest income resulted from surplus cash balances on hand at times during the reported periods invested at Bankers Acceptance rates.

ROYALTIES

($ thousands except per boe amounts)	2006	2005	2004
Crown	10,183	3,945	220
Overriding and freehold	3,416	1,672	117
Alberta royalty tax credit ("ARTC")	(507)	(629)	(48)
Net royalties	13,092	4,988	289
Per boe ($/boe)	12.32	13.61	10.88
Percent of production revenue	24.2%	25.2%	25.1%

Royalty rates decreased during 2006 as a result of normal production declines per well thus attracting lower royalty rates and the development of wells on lands that were not subject to gross overriding royalties.

Capitol is forecasting royalty rates to average 21% to 24% for 2007.

In 2006, the Alberta government announced the end of the ARTC program effective January 1, 2007 and, accordingly, Capitol will not receive ARTC after 2006.

PRODUCTION AND TRANSPORTATION EXPENSES

($ thousands except per boe amounts)	2006	2005	2004
Production	4,178	1,354	184
Transportation	3,364	1,640	75
Total	7,542	2,994	259
Per boe ($/boe)	7.10	8.17	9.76
Percent of production revenue	13.9%	15.1%	22.5%

The increased production and transportation expenses resulted from production increases in 2006 and 2005. On a per unit basis, production and transportation expenses have decreased as a result of additional production volumes sharing fixed operating costs.

The majority of transportation costs are for trucking crude oil from Dixonville to third party pipeline terminal access points. Trucking rates include a fixed rate per barrel plus a time component for waiting time at the terminal and variable travel times from seasonal road conditions.

GENERAL AND ADMINISTRATIVE EXPENSES ("G&A")

($ thousands except per boe amounts)	2006	2005	2004
People costs	3,776	2,845	549
Office costs	592	511	116
Corporate costs	815	611	301
Capitalized G&A and overhead recoveries	(1,257)	(721)	(2)
G&A expense	3,926	3,246	964
Per boe ($/boe)	3.69	8.85	36.33

General and administrative expenses have increased on a yearly basis from increased staffing required to manage the capital expenditure budget and resulting production. On a per unit basis, G&A expenses have trended downwards as a result of increased production.

During 2006, the Company capitalized $1,156 (2005 – $710) in general and administrative expenses. The Company commenced capitalizing G&A expenditures in the third quarter of 2005 as a result of increased exploration and development activities at that time.

Capitol expects future general and administrative expenses may increase from inflationary pressures but does not expect that significant staff additions will be required to manage further growth. Capitol anticipates general and administrative expenses per unit of production to continue to trend downwards in 2007.

STOCK BASED COMPENSATION

($ thousands except for options granted)	2006	2005	2004
Stock based compensation			
Expensed	2,946	5,025	583
Capitalized	537	–	–
Total	3,483	5,025	583
Options granted	950,200	2,241,000	208,000

Stock based compensation has fluctuated year-over-year as a result of the number of stock options granted during the periods.

Capitol's stock options vest one third on their grant date and one third on the first and second anniversary dates. One third of the estimated value of the options is recorded on the grant date with the remaining option value recorded over the remaining vesting periods on a straight line basis.

DEPLETION, DEPRECIATION AND ACCRETION ("DD&A")

($ thousands except per boe amounts)	2006	2005	2004
DD&A	21,831	7,910	415
Per boe ($/boe)	20.54	21.58	15.66

DD&A expenses have increased on a year over year basis as a result of production volumes increasing.

On a per unit of production basis, Capitol's DD&A rate decreased as a result of increasing proved reserves. Capitol's DD&A rate increased during 2005 versus 2004 as a result of the Tiger acquisition. As the Dixonville pool is still in its early stages of development, a significant portion of reserves are still in the probable and possible categories. Capitol expects these reserves to shift to the proved category over time with continued development and waterflood response.

All of Capitol's property and equipment was subject to depletion and depreciation at December 31, 2006, with the exception of unproved property costs of $4,762.

INTEREST EXPENSE

($ thousands except per boe amounts)	2006	2005	2004
Interest expense	1,212	385	–
Per boe ($/boe)	1.14	1.05	–

Interest expense increased during 2006 from greater use of bank credit facilities to fund development expenditures at Dixonville. Interest expense in 2005 relates to $263 payable under Part XII.6 of the Income Tax Act relating to flow-through shares and $122 in respect of amounts drawn during the year on the Company's banking facilities. There was no interest expense for 2004.

INCOME TAXES

($ thousands)	2006	2005	2004
Current – large corporation's tax	26	88	–
Future income tax expense (recovery)	2,870	(13,652)	–

Additional information relating to Capitol's future income tax can be found in Note 7 of Capitol's 2006 Financial Statements.

In 2006 and 2005, Capitol was subject to large corporation's tax. The decrease in current tax expense during 2006 was due to the federal government eliminating large corporation's tax in 2006. Capitol has a June 30 taxation year end and was subject to large corporations tax for a portion of 2006. Capitol does not expect to pay any current tax for 2007.

During 2006, Capitol recorded future tax expense of $2,870 on net income as adjusted for non-deductible items including stock based compensation and royalties. During 2005, Capitol recorded a future tax recovery of $13,652 on the renunciation of flow through share expenditures and the recognition of tax assets on a "more likely than not" basis.

In conjunction with the business combination with Tiger in 2005, Capitol recognized a future income tax benefit of approximately $11,089 to eliminate future tax on the excess of allocated values over acquired Tiger tax deductions.

ESTIMATE OF AVAILABLE TAX DEDUCTIONS

($ thousands)	as at December 31 2006
Canadian oil and gas property expenditures	14,400
Canadian development expenditures	81,000
Canadian exploration expenditures	14,800
Undepreciated capital costs	65,000
Share issue costs	5,100
Non-capital losses	10,900
Scientific research and development expenditures and other	4,700
Total at December 31, 2006	195,900

RECONCILIATION OF NON GAAP MEASURES

($ thousands except per share amounts)	2006	2005	2004
Net income (loss)	1,216	9,000	(1,244)
Non-cash items			
Unrealized gain on financial derivatives	(571)	–	–
Depletion, depreciation and accretion	21,831	7,910	415
Stock based compensation	2,946	5,025	583
Future income tax expense (recovery)	2,870	(13,652)	–
Cash flow from (used in) operations	28,292	8,283	(246)
$ per share – basic	0.56	0.21	(0.01)

NETBACKS PER BOE

	2006			2005	2004
	Natural Gas ($/mcf)	Oil ($/bbl)	Total ($/boe)	Total ($/boe)	Total ($/boe)
Production revenue	6.12	55.66	50.87	54.02	43.39
Royalties, net of ARTC	(1.88)	(12.67)	(12.32)	(13.61)	(10.88)
	4.24	42.99	38.55	40.41	32.51
Production and transportation	(0.84)	(7.78)	(7.10)	(8.17)	(9.76)
Operating netback	3.40	35.21	31.45	32.24	22.75
Interest income			0.02	0.49	4.33
General and administrative			(3.69)	(8.85)	(36.33)
Interest expense			(1.14)	(1.05)	–
Current income tax expense			(0.03)	(0.24)	–
			26.61	22.59	(9.25)
Stock based compensation			(2.77)	(13.71)	(21.98)
Unrealized gain on financial derivatives			0.54	–	–
DD&A			(20.54)	(21.58)	(15.66)
Future income tax expense (recovery)			(2.70)	37.24	–
Net income (loss) per boe			1.14	24.54	(46.89)

CAPITAL ADDITIONS

($ thousands)	2006	2005	2004
Petroleum and natural gas rights	7,182	2,583	876
Seismic	2,634	5,952	1,275
Drilling and completions	53,078	41,187	6,207
Equipping and facilities	16,237	10,236	475
General and administrative	1,157	710	–
Stock based compensation*	537	–	–
Asset retirement costs*	593	1,076	108
Exploration and development additions	81,418	61,744	8,941
Administrative assets	53	161	99
Capital additions	81,471	61,905	9,040
Corporate acquisition**	–	49,514	–

* Non-cash expense
** Acquisition of Tiger Energy Limited on February 28, 2005

During 2006, Capitol continued its development program of the Dixonville Montney "C" pool. In October 2006, Capitol commenced its waterflood pilot at Dixonville and applied for an expansion of the waterflood in December 2006.

DRILLING SUMMARY

	2006		2005		2004	
	Gross	Net	Gross	Net	Gross	Net
Oil	44.0	44.0	29.0	27.8	6.0	2.4
Natural gas	7.0	5.3	7.0	5.0	–	–
Dry	3.0	2.4	4.0	2.3	–	–
Total	54.0	51.7	40.0	35.1	6.0	2.4

In addition to the wells noted above, at December 31, the Company had 2.0 (1.1 net) wells which were standing and awaiting completion.

LAND HOLDINGS

	Gross			Net		
(in acres) as at	Developed	Undeveloped	Total	Developed	Undeveloped	Total
December 31, 2004	3,719	20,395	24,114	1,594	8,693	10,287
December 31, 2005	14,330	48,420	62,750	11,836	38,521	50,357
December 31, 2006	21,208	67,640	88,848	17,617	48,092	65,709

Capitol has grown its land position over the periods indicated through acquisitions, farm-in arrangements and crown sales.

RESERVES – FORECAST PRICING

as at December 31	2006	2005	2004
Summary of oil and gas reserves (working interest – mboe)			
Proved	14,924	8,711	1,438
Probable	15,032	6,554	2,286
Proved plus probable	29,955	15,265	3,724
Summary of future net revenue ($ thousands – before income taxes)			
Undiscounted			
Proved	380,204	208,208	21,359
Probable	462,665	176,476	38,222
Total proved plus probable – undiscounted	842,689	384,684	59,581
Total proved plus probable – discounted at 10% per year	389,581	230,493	32,720

Reserves increased during 2006 and 2005 as a result of development drilling at Dixonville and Helen during the year and the acquisition of Tiger in early 2005.

Capitol's Reserves Committee of independent board members reviews the qualifications and appointment of an independent qualified reserves evaluator to evaluate the Company's reserves. The Reserves Committee also reviews the procedure for providing information to Capitol's independent qualified reserves evaluator, McDaniel & Associates Consultants Ltd. Readers are advised to review Capitol's full disclosure of reserves filed on SEDAR with the Company's 2006 financial results.

RISK MANAGEMENT

During 2006, Capitol recorded an unrealized mark-to-market gain on its financial derivative contracts of $571. The gain was in respect of costless collars for approximately 1,600 boe per day of production entered into by Capitol during the fourth quarter of 2006. Capitol did not have any mark-to-market gains or losses for 2005 or 2004. Additional information regarding Capitol's risk management activities can be found in note 10 of Capitol's 2006 Financial Statements.

LIQUIDITY AND CAPITAL RESOURCES

The Company utilized cash flow, its credit facilities and the proceeds from share issuances to fund exploration and development activities for the year ended December 31, 2006. At December 31, 2006, the Company had a working capital deficit of $39,580 including bank lines, and undrawn credit facilities of $26,277.

Capitol expects to fund its 2007 capital program with cash flow generated from production, use of bank credit facilities or alternate financing arrangements.

Capitol monitors its production, expected cash flows, credit facilities and the equity markets to allow for flexibility with its capital expenditure program. To provide security for its 2007 capital program, the Company has hedged a portion of its 2007 production volumes. Capitol has a large inventory of development locations at Dixonville and a portfolio of exploration opportunities that is continually balanced and prioritized to match cash flows and financing capabilities.

CONTRACTUAL OBLIGATIONS

($ thousands)	2007	2008 to 2009	2010 to 2011	After 2011	Total
Demand development loan	3,300	3,700	–	–	7,000
Asset retirement obligations	–	–	–	5,641	5,641
Capital commitments	700	–	–	–	700
Office lease	261	514	–	–	775
Total contractual obligations	4,261	4,214	–	5,641	14,116

In addition to the obligations noted above, the Company had $26,723 outstanding on its revolving credit facility at December 31, 2006. The revolving credit facility has no fixed repayment schedule and is repayable on demand.

Additional information relating to the Company's contractual obligations is disclosed in note 12 of Capitol's 2006 Financial Statements.

OFF BALANCE SHEET ARRANGEMENTS

The Company does not have any off-balance sheet arrangements that will have an effect on its results of operations or financial condition.

RELATED PARTY TRANSACTIONS

During 2006, the Company incurred expenditures of $94 (2005 – $285, 2004 – $90) in respect of legal services provided by a firm in which a director of the Company is a partner. The services were conducted in the normal course of operations and are measured at the exchange amount which is established and agreed to by the related parties based on standard rates, time spent and costs incurred.

During 2005, management, directors and employees purchased 276,928 common shares through private placements for proceeds of $784 and 120,875 flow-through shares for $515 (2004 – 74,362 flow through shares for $280). With the exception of shares issued pursuant to stock option agreements management, directors and employees did not purchase any shares during 2006.

COMMON SHARES OUTSTANDING

(thousands)	2006	2005	2004
Common shares outstanding end of period	52,975	47,988	22,356
Weighted average shares outstanding, diluted	50,568	39,835	21,401

There has been no change in the amount of common shares outstanding to the period ended March 8, 2007.

During 2006, Capitol's Board of Directors (the "Board") adopted a Shareholders' Rights Plan (the "Rights Plan"). The Rights Plan's objectives are to ensure, to the extent possible, that all shareholders of the Company are treated equally and equitably in connection with any takeover bid for the Company.

The Rights Plan has been conditionally approved by the Toronto Stock Exchange, and requires approval by Capitol's shareholders by May 14, 2007.

Under the Rights Plan, one right (a "Right") has been issued in respect of each common share of the Company outstanding. The Rights trade with and are represented by the common shares. If a person, or a group acting jointly or in concert, acquires, other than pursuant to an exemption available under the Rights Plan, beneficial ownership of 20% or more of the common shares outstanding, the Rights will separate from the common shares and permit the holder to purchase common shares at a 50% discount to their market price. At any time prior to the Rights becoming exercisable, the Board of Directors may waive the operation of the Rights Plan.

Prior years' disclosure of shares outstanding has been adjusted to reflect the 1 new common share for 5 old common shares consolidation and the 1 for 5 consolidation and conversion of non-voting common shares to common shares in May 2005.

FOURTH QUARTER 2006

quarters ended	Dec 31 2006	Sep 30 2006	Dec 31 2005	Dec 31 2004
Operating (average daily sales)				
Oil (bbls/d)	2,584	2,164	1,337	55
Natural gas (mcf/d)	5,459	4,293	1,320	155
Total (boe/d) (gas at 6 mcf: 1 boe)	3,494	2,880	1,557	164
Financial ($ thousands)				
Production revenue net of royalties and ARTC	11,760	11,109	5,784	459
Cash flow from (used in) operations*	7,719	8,154	3,601	(221)
Net income (loss)	630	1,266	9,564	(714)
Exploration and development additions	18,271	25,828	27,191	7,073

* non-GAAP measure

During the fourth quarter of 2006, Capitol focused on its development activities at Dixonville and tying in production. Capitol drilled 15 gross wells (13.8 net) and had exploration and development additions of $18,271.

Sales volumes in the fourth quarter of 2006 averaged 3,494 boe per day, and Capitol exited the year at approximately 4,200 boe per day. Revenue was positively impacted by higher production volumes however the benefits were reduced by a widening crude oil quality differential which averaged $20.03 per barrel in the fourth quarter of 2006 and reached a high of $20.99 per barrel in October.

OUTLOOK

Production is forecasted to be approximately 4,400 to 4,700 boe per day on or around spring break up. Capitol expects to spend $55,000 to $65,000 on its capital programs during 2007 with approximately 85% directed to Dixonville development and 15% on other low risk exploration prospects.

Capitol's management is confident given positive production performance, waterflood response and ongoing geologic and engineering work in the Dixonville Montney "C" pool, that it has removed the technical risk from the continued development of the Dixonville oil pool. Capitol's Management and Board believe that continued drilling and time will result in possible reserves moving to the proved and probable categories with ultimate recoveries with waterflood converging on 20% to 30% of the OOIP.

SUMMARY OF QUARTERLY FINANCIAL AND OPERATIONAL INFORMATION

The following table summarizes selected financial information of the Company for the quarters indicated. The Company closed its initial oil and gas acquisition on May 4, 2004 and the acquisition of Tiger on February 28, 2005.

	2006				2005			
($ thousands except share and per share data)	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Financial								
Production revenue net of royalties and ARTC	11,760	11,109	10,612	7,497	5,784	4,345	2,819	1,867
Cash flow from operations*	7,719	8,154	7,406	5,013	3,601	2,876	1,176	630
Per share, basic*	0.15	0.16	0.15	0.10	0.08	0.07	0.03	0.02
Net income (loss)	630	1,266	430	(1,110)	9,564	(526)	(1,497)	1,459
Per share**	0.01	0.02	0.01	(0.02)	0.20	(0.01)	(0.04)	0.05
Exploration and development additions	18,271	25,828	10,340	26,979	27,191	19,560	6,409	8,584
Corporate acquisitions	–	–	–	–	–	–	–	49,514
Net working capital (deficiency)	(39,580)	(29,544)	(34,665)	(31,910)	(10,403)	12,774	(3,743)	1,220
Total assets	190,498	176,747	158,064	154,647	136,524	121,551	77,286	79,175
Shares outstanding (thousands)	52,975	52,975	47,988	47,988	47,988	47,970	40,660	40,580
Shareholders' equity	140,264	139,068	114,442	113,302	114,702	103,309	69,526	69,744
Operational								
Sales								
Oil (bbls/d)	2,584	2,164	2,111	1,833	1,337	808	698	490
Natural gas (mcf/d)	5,459	4,293	4,512	3,370	1,320	1,383	797	546
Total (boe/d)	3,494	2,880	2,863	2,395	1,557	1,039	831	581
Average realized prices								
Oil ($/bbl)	48.68	61.56	63.03	50.16	51.47	61.46	51.23	50.97
Natural gas ($/mcf)	6.40	5.35	5.69	7.24	11.47	9.04	7.88	5.90
Per boe ($/boe)	50.87	54.24	55.45	48.58	53.93	59.87	50.60	48.53
Net wells drilled								
Oil	10.0	18.0	5.0	11.0	12.0	12.0	3.0	0.8
Natural gas	3.8	–	–	1.5	2.5	2.0	0.5	–
Dry	–	–	–	2.4	1.4	0.9	–	–
Total	13.8	18.0	5.0	14.9	15.9	14.9	3.5	0.8

* non-GAAP measure
** basic and diluted

BUSINESS CONDITIONS AND RISK

The following is a brief summary of business conditions, uncertainties and risks which might impact the financial results of Capitol. Readers are cautioned that the summary is not exhaustive and that these and other risk factors are discussed in further detail throughout this Management's Discussion and Analysis and in our Annual Information Form on file with Canadian securities commissions.

RESERVE ESTIMATES

The production forecast and recoverable estimates contained in Capitol's year end reserve evaluation prepared by an independent qualified reserves evaluator ("reserve evaluators") are only estimates and the actual production and ultimate recoverable reserves from the properties may be greater or lesser than the independent estimates of the reserve evaluators.

There are numerous uncertainties inherent in estimating quantities of reserves and cash flows to be derived there-from, including many factors that are beyond the control of Capitol. The reserve and cash flow information set forth herein represent estimates only. The reserves and estimated future net cash flow from the assets of Capitol have been independently evaluated effective December 31, 2006 by the reserve evaluators. These evaluations include a number of assumptions relating to factors such as initial production rates, production decline rates, ultimate recovery of reserves, timing and amount of capital expenditures, marketability of production, future prices of oil and natural gas, operating costs and royalties and other government levies that may be imposed over the producing life of the reserves. These assumptions were based on price forecasts in use at the date the relevant evaluations were prepared and many of these assumptions are subject to change and are beyond the control of Capitol. Actual production and cash flows derived there-from will vary from these evaluations, and such variations could be material. The foregoing evaluations are based in part on the assumed success of exploitation activities intended to be undertaken in future years. The reserves and estimated cash flows to be derived there-from contained in such evaluations will be reduced to the extent that such exploitation activities do not achieve the level of success assumed in the evaluations.

VOLATILITY OF OIL AND NATURAL GAS PRICES

The operational results and financial condition of Capitol will depend on the prices received for oil and natural gas production. Historically, oil and natural gas prices have fluctuated widely and are determined by supply and demand factors, including weather and general economic conditions as well as conditions in other oil and natural gas regions, which are beyond the Company's control. Any decline in oil and natural gas prices could have an adverse effect on the operations, proved reserves and financial conditions of

Capitol, resulting in a reduction of the net production revenue of Capitol and a curtailment of its oil and gas development activities.

In addition, bank borrowings which might be made available to Capitol are typically determined in part by the borrowing base of the Company's reserves. A sustained material decline in prices from historical averages could reduce the borrowing base, therefore limiting the bank credit available to Capitol or could require that a portion of such bank debt be repaid.

OPERATIONAL HAZARDS AND OTHER UNCERTAINTIES

Oil and natural gas exploration operations are subject to all the risks and hazards typically associated with such operations, including hazards such as fire, explosion, blow-outs, and oil spills, each of which could result in substantial damage to oil and natural gas wells, production facilities, other property and the environment or in personal injury. In accordance with industry practice, Capitol is not fully insured against all of these risks, nor are all such risks insurable. Although Capitol maintains liability, business interruption and property insurance, in amounts it considers adequate and consistent with industry practice, the nature of these risks is such that liabilities may exceed policy limits, in which event Capitol could incur significant costs that could have a material adverse effect upon its financial condition.

Although property title reviews are done according to industry standards prior to the purchase of most oil and natural gas producing properties or the commencement of drilling wells, such reviews do not guarantee or certify that an unforeseen defect in the chain of title will not arise to defeat the claim of Capitol which could result in a reduction of the revenue received by Capitol.

COMPETITION

The oil and gas industry is highly competitive. Capitol actively competes with a substantial number of other oil and gas companies that may have greater financial resources for reserve acquisitions, exploration leases, licenses and concessions and skilled industry personnel. As well, Capitol competes for capital to finance its activities. Capitol's competitors include major integrated oil and natural gas companies and numerous other independent oil and natural gas companies and individual producers and operators.

RELIANCE ON OPERATORS AND KEY EMPLOYEES

To the extent that Capitol is not the operator of its oil and gas properties, the Company will be dependent on other operators for the timing of activities related to such properties and will largely be unable to direct or control the activities of the operators. In addition, Capitol's success will be largely dependent upon the performance of its management and key employees. Capitol does not have any key man insurance policies, and therefore there

is a risk that the death or departure of any member of management or a key employee could have a material adverse effect on Capitol.

ENVIRONMENTAL RISKS

All phases of the oil and natural gas business present environmental risks and hazards and are subject to environmental regulation pursuant to a variety of international conventions as well as federal, provincial and municipal laws and regulations. Environmental legislation provides for, among other things, restrictions and prohibitions on spills, releases or emissions of various substances produced in association with oil and gas operations. The legislation also requires that wells and facility sites be operated, maintained, abandoned and reclaimed to the satisfaction of applicable regulatory authorities. Compliance with such legislation can require significant expenditures and a breach may result in the imposition of fines and penalties, some of which may be material.

Environmental legislation is evolving in a manner expected to result in stricter standards and enforcement, larger fines and liabilities and potentially increased capital expenditures and operating costs. No assurance can be given that environmental laws will not result in a curtailment of production or a material increase in the costs of production, development or exploration activities or otherwise, adversely affecting Capitol's financial condition, results of operations or prospects.

DISCLOSURE CONTROLS AND PROCEDURES

The Company's disclosure controls and procedures have been designed to ensure that information required to be disclosed by the Company is accumulated and communicated to the Company's management as appropriate to allow timely decisions regarding required disclosure. The Company's Chief Executive Officer and Chief Financial Officer have concluded, based on their evaluation as of the end of the period covered by the annual filings, that the Company's disclosure controls and procedures are effective to provide reasonable assurance that material information related to the Company is made known to them. It should be noted that while the Company's Chief Executive Officer and Chief Financial Officer believe that the Company's disclosure controls and procedures provide a reasonable level of assurance that they are effective, they do not expect that the disclosure controls and procedures can prevent all errors and fraud. A control system, no matter how well conceived or operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. In addition, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or the procedures may deteriorate.

INTERNAL CONTROL OVER FINANCIAL REPORTING

Management is responsible for the integrity of the financial information. Internal control systems are designed and maintained to provide reasonable assurance that assets are safeguarded from loss or unauthorized use and to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with Canadian GAAP. Pursuant to proposals by the Canadian Securities Administrators, Capitol will be required to evaluate and certify the effectiveness of internal controls over financial reporting beginning with its financial year ending December 31, 2008. While Capitol's Chief Executive Officer and Chief Financial Officer believe that the Company's internal controls and procedures provide a reasonable level of assurance that they are effective, an internal control system cannot prevent all errors and fraud. A control system, no matter how well conceived or operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met.

CRITICAL ACCOUNTING ESTIMATES AND ACCOUNTING POLICIES

The significant accounting policies used by Capitol are disclosed in Note 2 to Capitol's audited Financial Statements for the period ended December 31, 2006. Certain accounting policies require management to make appropriate decisions with respect to the formulation of estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses. Discussion about such accounting policies is included in the Management's Discussion and Analysis that accompanies the December 31, 2006, Financial Statements, to aid the reader in assessing the critical accounting policies and practices of the Company, and the likelihood of materially different results being reported. Capitol's management reviews its estimates regularly. The emergence of new information and changed circumstances may result in actual results or changes to estimated amounts that differ materially from current estimates. Capitol's assessment of significant accounting policies is not meant to be exhaustive. The Company may realize different results from the application of new accounting standards promulgated, from time to time, by various rule-making bodies.

The following discusses the accounting estimates that are critical in determining the reported financial results for the year ended December 31, 2006.

PETROLEUM AND NATURAL GAS RESERVES

The Company engages an independent qualified reserves evaluator to evaluate its reserves on an annual basis with quarterly estimates prepared internally. Reserve determinations involve forecasts based on property performance, future prices, projected future production and the timing of future capital expenditures all of which are subject to uncertainties and interpretations. Reserve estimates have a significant impact on

reported financial results as they are the basis for the calculation of depreciation and depletion and many non-GAAP key performance indicators. Revisions can change reported depletion and depreciation as well as earnings; downward revisions could result in an asset impairment.

FULL COST ACCOUNTING

The Company follows the full cost method of accounting as prescribed by the Canadian Institute of Chartered Accountants ("CICA") Accounting Guideline 16 "Oil and Gas Accounting – Full Cost", whereby, all costs associated with exploration and development are capitalized, whether successful or not.

The aggregate of capitalized costs, net of certain costs related to unproved properties, and estimated future development costs, is amortized using the unit-of-production method based on estimated proved reserves. Changes in estimated proved reserves or future development costs have a direct impact on depletion and depreciation expense. Certain costs related to unproved properties and major development projects may be excluded from costs subject to depletion until proved reserves have been determined or their value is impaired. Unproved properties are reviewed quarterly to determine if proved reserves should be assigned, at which point they would be included in the depletion calculation, or for impairment, for which any write-down would be charged to depletion and depreciation.

Oil and gas assets are evaluated at least annually to determine that the costs are recoverable and do not exceed the fair value of the properties. The costs are assessed to be recoverable if the sum of the undiscounted cash flows expected from the production of proved reserves and the lower of cost and market of unproved properties exceed the carrying value of the oil and gas assets. If the carrying value of the oil and gas assets is not assessed to be recoverable, an impairment loss is recognized to the extent that the carrying value exceeds the sum of the discounted future cash flows from the production of proved and probable reserves and the lower of cost and market of the unproved properties. The cash flows are estimated using future product prices and costs and are discounted using a risk-free rate. By their nature, these estimates are subject to measurement uncertainty and the impact on the Financial Statements could be material. Any impairment would be charged as additional depletion and depreciation expense.

ASSET RETIREMENT OBLIGATION

The Company provides for the estimated abandonment costs of properties using a fair value method. This future estimate is based on estimated costs and technology following current legislation and industry practice. The reported liability is a discounted amount of the estimated future costs. The amount of the liability is affected by factors

such as the number of wells, the timing of the expected expenditures, inflation and the discount rate. These estimates will change and the revisions could impact the depletion and depreciation rates.

STOCK BASED COMPENSATION

The Company uses fair value accounting for stock-based compensation. Under this method, all equity instruments awarded to employees and consultants and the cost of the service received as considerations are measured and recognized based on the fair value of the equity instruments issued. Compensation expense is recognized over the period of related employee service, usually the vesting period of the equity instrument awarded.

INCOME TAXES

The Company uses the liability method of tax allocation in accounting for income taxes. Under this method, future income tax liabilities and future income tax assets are determined based on differences between the financial reporting and tax bases of assets and liabilities, and measured using the substantively enacted tax rates and laws that will be in effect when the differences are expected to reverse. Future tax assets are recorded when it is "more likely than not" the future tax asset will be realized. The determination of the Company's income and other tax liabilities or assets requires interpretation of complex laws and regulations often involving multiple jurisdictions. All tax filings are subject to audit and potential reassessment after lapse of considerable time. Accordingly, the actual income tax liability or asset may differ significantly from the liability estimated or recorded.

FINANCIAL DERIVATIVE CONTRACTS

Financial derivative contracts may be used by Capitol to manage its exposure to market risks relating to commodity prices. The Company's policy is to not use financial derivative contracts for speculative purposes. Commencing in 2006, the Company entered into financial derivative contracts to help reduce its exposure to decreased cash flow from price fluctuations As at December 31, 2006, financial derivative contracts entered into by Capitol had been limited costless collars with a major financial institution.

Financial Derivative contracts that do not qualify as hedges, or are not designated as hedges, are recorded using the mark-to-market method of accounting whereby the fair value of financial derivative contracts is recognized in the balance sheet with changes in the fair value reported separately in the statement of operations. The estimated fair values of the financial derivative contracts are based on quoted market prices. In 2006, Capitol elected not to designate any of its derivative financial contracts as accounting hedges and, accordingly, accounts for these using the mark-to-market accounting method.

OTHER ESTIMATES

The accrual method of accounting requires management to incorporate certain estimates including estimates of revenues, royalties and production costs as at a specific reporting date, but for which actual revenues and costs have not yet been received; and estimates on capital projects which are in progress or recently completed where actual costs have not been received at a specific reporting date. The Company ensures that the individuals with the most knowledge of the activity are responsible for the estimate. These estimates are then reviewed for reasonableness and past estimates are compared to actual results in order to make informed decisions on future estimates.

NEW ACCOUNTING PRONOUNCEMENTS

FINANCIAL INSTRUMENTS

In January 2005 the CICA issued new standards relating to the reporting of financial instruments in financial statements. These standards introduce new requirements for the recognition and measurement of financial instruments and comprehensive income. Section 3855, "Financial Instruments – Recognition and Measurement" requires that all financial instruments, including derivatives, are to be included on a company's balance sheet and measured, either at their fair values or, in limited circumstances when fair value may not be considered most relevant, at cost or amortized cost. The standard also provides guidance on when gains and losses as a result of changes in fair values are to be recognized in the income statement.

The issuance of the new Section 3855 will result in amendments to Section 3860 "Financial Instruments – Disclosure and Presentation" to make the scope and definitions consistent with that of the new Section 3855, including expanding the scope to include certain commodity-based contracts, and to update certain disclosures in light of the introduction of Section 3855. Other Handbook Sections have also been amended for conformity with the new standards.

Section 3865 "Hedges", extends the existing requirements for hedge accounting currently under AcG-13. This new section allows for the optional treatment of accounting for financial instruments that are designated as either fair value hedges, cash flow hedges or hedges of a net investment in a self-sustaining foreign operation. For a fair value hedge, the gain or loss on a derivative hedging item, or the gain or loss on a non-derivative hedging item attributable to the hedged risk, is recognized in net income in the period of change together with the offsetting loss or gain on the hedged item attributable to the hedged risk. The carrying amount of the hedged item is adjusted for the hedged risk. For a cash flow hedge, the effective portion of the hedging item's gain or loss is initially reported in other comprehensive income and subsequently reclassified to net income when the hedged item affects net income.

A new location for recognizing certain gains and losses – other comprehensive income – has been introduced with the issued of Section 1530, "Comprehensive Income". An integral part of the accounting standards on recognition and measurement of financial instruments is the ability to present certain gains and losses outside net income, in other Comprehensive Income. This standard requires that a company should present comprehensive income and its components in a financial statement displayed with the same prominence as other financial statements that constitute a complete set of financial statements, in both annual and interim financial statements.

These three new Handbook Sections are effective date for annual and interim periods in fiscal years beginning on or after October 1, 2006. Capitol is evaluating the impact the adoption of these new standards will have on its financial statements.

SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

Certain statements regarding Capitol including management's assessments of future plans and operations, may constitute forward-looking statements under applicable securities laws and necessarily involve known and unknown risks and uncertainties, most of which are beyond Capitol's control. These risks may cause actual financial and operating results, performance, levels of activity and achievements to differ materially from those expressed in, or implied by, such forward-looking statements.

Such factors include, but are not limited to: the impact of general economic conditions in Canada and the United States; industry conditions including changes in laws and regulations including adoption of new environmental laws and regulations, and changes in how they are interpreted and enforced; competition; the lack of availability of qualified personnel; fluctuations in commodity prices; the results of exploration and development drilling and related activities; imprecision in reserve estimates; the production and growth potential of Capitol's various assets; fluctuations in foreign exchange or interest rates; the ability to access sufficient capital from internal and external sources; and obtaining required approvals of regulatory authorities. The foregoing important factors are not exhaustive. Many of these risk factors are discussed in further detail throughout this Management's Discussion and Analysis and in our Annual Information Form on file with Canadian securities commissions. Readers are also referred to the risk factors described in other documents that we file from time to time with securities regulatory authorities.

Accordingly, Capitol gives no assurance nor makes any representations or warranty that the expectations conveyed by the forward-looking statements will prove to be correct and actual results may differ materially from those anticipated in the forward looking statements. Capitol undertakes no obligation to publicly update or revise any forward-looking statements except as required by law.

Management has prepared the accompanying financial statements of Capitol Energy Resources Ltd. in accordance with Canadian generally accepted accounting principles. Financial and operating information presented throughout this Annual Report is consistent with that shown in the financial statements.

Management is responsible for the integrity of the financial information. Internal control systems are designed and maintained to provide reasonable assurance that assets are safeguarded from loss or unauthorized use and to produce reliable accounting records for financial reporting purposes.

KPMG LLP was appointed by the Company's shareholders to perform an examination of the corporate and accounting records so as to express an opinion on the financial statements. Their examination included such tests and procedures, as they considered necessary, to provide reasonable assurance that the financial statements are presented fairly in accordance with Canadian generally accepted accounting principles.

The Board of Directors is responsible for ensuring that management fulfills its responsibilities for financial reporting and internal control. The Board exercises this responsibility through the Audit Committee, with assistance from the Reserve Committee regarding the annual evaluation of Capitol's petroleum and natural gas reserves. The Audit Committee meets regularly with management and the independent auditors to ensure that management's responsibilities are properly discharged, to review the financial statements and recommend that the financial statements be presented to the Board of Directors for approval. The Audit Committee also considers the independence of the external auditors and reviews their fees. The external auditors have access to the Audit Committee without the presence of management.

R.L. (MONTY) BOWERS
President and Chief Executive Officer
Calgary, Canada
March 8, 2007

DOUG DEARING
Vice President, Finance and Chief Financial Officer
Calgary, Canada
March 8, 2007

We have audited the balance sheets of Capitol Energy Resources Ltd. as at December 31, 2006, and 2005 and the statements of operations, and retained earnings and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2006, and 2005 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

KPMG LLP

Chartered Accountants
Calgary, Canada
March 8, 2007

BALANCE SHEETS

As at December 31, (thousands of dollars)	2006	2005
Assets		
Current:		
Cash and cash equivalents	$ –	$ 4,232
Accounts receivable	7,369	5,251
Other current assets	309	264
Financial derivative contracts *(note 10)*	571	–
	8,249	9,747
Property and equipment *(note 3)*	176,017	116,232
Future income tax asset *(note 7)*	6,232	10,545
	$ 190,498	$ 136,524
Liabilities and Shareholders' Equity		
Current:		
Accounts payable and accrued liabilities	$ 14,106	$ 20,150
Bank loan *(note 5)*	33,723	–
	47,829	20,150
Office lease inducements	26	31
Asset retirement obligation *(note 6)*	2,379	1,641
	50,234	21,822
Shareholders' equity:		
Share capital *(note 8)*	126,844	105,864
Contributed surplus *(note 8)*	9,569	6,203
Retained earnings	3,851	2,635
	140,264	114,702
	$ 190,498	$ 136,524

Commitments *(note 12)*

See accompanying notes to financial statements

Approved on behalf of the Board

"Signed"	*"Signed"*
R.L. (MONTY) BOWERS	**SHELDON REID**
Director	*Director*

STATEMENTS OF OPERATIONS AND RETAINED EARNINGS

For the years ended December 31, (thousands of dollars except per share amounts)	2006	2005
Revenues		
Petroleum and natural gas	$ 54,070	$ 19,803
Royalties, net of Alberta Royalty Tax Credit	(13,092)	(4,988)
Unrealized gain on financial derivatives *(note 10)*	571	–
Interest	20	181
	41,569	14,996
Expenses		
Production	4,178	1,354
Transportation	3,364	1,640
General and administrative	3,926	3,246
Stock based compensation *(note 9)*	2,946	5,025
Depletion, depreciation and accretion	21,831	7,910
Interest	1,212	385
	37,457	19,560
Net income (loss) before taxes	4,112	(4,564)
Current income tax expense *(note 7)*	26	88
Future income tax expense (recovery) *(note 7)*	2,870	(13,652)
Net income	$ 1,216	$ 9,000
Retained earnings (deficit), beginning of year	2,635	(6,365)
Retained earnings, end of year	$ 3,851	$ 2,635
Net income per share, basic and diluted	$ 0.02	$ 0.23
Weighted average number of shares outstanding (000's) *(note 13)*		
basic	50,240	39,617
diluted	50,568	39,835
Shares issued and outstanding *(note 8)*	52,975	47,988

See accompanying notes to financial statements

STATEMENTS OF CASH FLOWS

For the years ended December 31, (thousands of dollars)	2006	2005
Operating activities		
Net income	$ 1,216	$ 9,000
Unrealized gain on financial derivatives	(571)	–
Depletion, depreciation and accretion	21,831	7,910
Stock based compensation	2,946	5,025
Office lease inducements	(5)	2
Future income tax expense (recovery)	2,870	(13,652)
Expenditures on abandonments	–	(110)
	28,287	8,175
Changes in non-cash working capital	(525)	(1,718)
	27,762	6,457
Financing activities		
Net change in bank loan *(note 5)*	33,723	–
Issuance of subscription receipts	–	50,000
Issuance of shares *(note 8)*	23,489	35,519
Share issue costs *(note 8)*	(1,375)	(4,994)
Exercise of warrants	–	198
Exercise of options *(note 8)*	192	49
	56,029	80,772
Investing activities		
Property and equipment expenditures	(80,341)	(60,829)
Acquisition of Tiger shares *(note 4)*	–	(49,514)
Cash acquired on acquisition of Tiger	–	3,430
Changes in non-cash working capital	(7,682)	9,849
	(88,023)	(97,064)
Change in cash and cash equivalents	(4,232)	(9,835)
Cash and cash equivalents, beginning of year	4,232	14,067
Cash and cash equivalents, end of year	$ –	$ 4,232

Supplemental cash flow information *(note 13)*

See accompanying notes to financial statements

NOTE 1: NATURE OF BUSINESS

Capitol Energy Resources Ltd. ("Capitol" or the "Company") is a public company engaged in the exploration, development and production of crude oil and natural gas in Alberta and British Columbia.

NOTE 2: SIGNIFICANT ACCOUNTING POLICIES

a) Basis of presentation

The financial statements include the accounts of Capitol and have been prepared in Canadian dollars in accordance with Canadian generally accepted accounting principles.

b) Measurement uncertainty

The preparation of the financial statements in accordance with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingencies, if any, as at the date of the financial statements and the reported amounts of revenues and expenses during the reporting periods. Amounts recorded for depletion, depreciation and asset retirement obligations and amounts used for the ceiling test calculation are based on estimates of oil and natural gas reserves, future costs required to bring those reserves to production, commodity prices and other relevant assumptions. By their nature, these estimates are subject to measurement uncertainty.

c) Cash and cash equivalents

Cash and cash equivalents consist of cash balances with banks and short-term investments with original maturities of less than three months. The fair value of cash and cash equivalents approximates the amounts shown in the financial statements.

d) Petroleum and natural gas properties

i) Capitalized costs

The Company follows the full cost method of accounting whereby all costs relating to the acquisition of, exploration for and development of oil and gas reserves are capitalized in a single Canadian cost center. Such costs include: lease acquisition, lease rentals on undeveloped properties, geological and geophysical, drilling both productive and non-productive wells, production equipment and facilities, general and administrative expenses and stock based compensation expenses that are directly related to exploration and development activities.

ii) Depletion and depreciation

All costs of acquisition, exploration and development of oil and natural gas reserves, associated tangible property and equipment costs (net of salvage value), and estimated costs of future development of proved undeveloped reserves are depleted and depreciated by the unit of production method based on estimated gross proved reserves as determined by an independent qualified reserves evaluator.

Costs of unproved properties are initially excluded from oil and gas properties for the purpose of calculating depletion. When proved reserves are assigned or the property is considered to be impaired, the cost of the property or the amount of the impairment is added to costs subject to depletion.

The relative volumes of oil and natural gas reserves and production are converted to equivalent barrels of oil on a 6 mcf to 1 boe basis.

Depreciation of office furniture and equipment is provided for at rates ranging from 20% to 50%.

iii) Ceiling test limitations

The Company places a limit on the net carrying value of capital assets to a cost recovery test (the "ceiling test"). The ceiling test is a two-stage process which is to be performed at least annually. The first stage of the test is a recovery test which compares the undiscounted future cash flow from proved reserves at forecast prices plus the cost less impairment of unproved properties to the net book value of the petroleum and natural gas assets to determine if the assets are impaired. An impairment loss exists when the net book value of the petroleum and natural gas assets exceeds such undiscounted cash flow. The second stage determines the amount of the impairment loss to be recorded. The impairment is measured as the amount by which the net book value of the petroleum and natural gas assets exceeds the future discounted cash flow from proved plus probable reserves at forecast prices. Any impairment is recorded as additional depletion and depreciation.

e) Joint operations

Portions of the Company's oil and gas exploration and development activities are conducted jointly with industry partners and accordingly the financial statements reflect only the Company's proportionate interest in such activities.

f) Asset retirement obligation

The fair value of the liability for the Company's asset retirement obligation is recorded in the period in which it is incurred with a corresponding increase to property and equipment. The liability is computed by discounting the estimated future value of the obligation using the Company's credit adjusted risk-free interest rate. The provision for asset retirement obligation is revised for the effect of any changes to timing related to cash flow or estimates of future abandonment costs.

The liability is accreted each period and the associated capitalized cost is depleted or depreciated over the useful life of the related asset.

g) Income taxes

The Company uses the liability method of tax allocation in accounting for income taxes. Under this method, future income tax liabilities and future income tax assets are determined based on differences between the financial reporting and tax basis of assets and liabilities, and measured using the substantively enacted tax rates and laws that will

be in effect when the differences are expected to reverse. Future tax assets are recorded when it is "more likely than not" the future tax asset will be realized.

h) Revenue recognition

Oil and natural gas sales are recognized as revenue when the commodities are delivered to purchasers.

Revenues, expenses and sales volumes from acquisitions are recorded for financial statement purposes from the date the transaction closes. Revenues, expenses and adjustments from the effective date to the closing date are recorded as adjustments to the purchase price.

i) Financial derivative contracts

Capitol documents its risk management objectives and strategies to manage exposures to fluctuations in commodity prices. Capitol's risk management policies include the use of derivative financial instruments, including price collars, to manage fluctuations in commodity prices relating to future oil and natural gas production. Capitol does not use financial derivative contracts for trading or speculative purposes.

Financial derivative contracts that do not qualify as hedges, or are not designated as hedges, are recorded using the mark-to-market method of accounting whereby the fair value of financial derivative contracts is recognized in the balance sheet with changes in the fair value reported separately in the statement of operations. The estimated fair values of the financial derivative contracts are based on quoted market prices.

j) Stock based compensation

The Company uses the fair value method of accounting for stock based compensation. Under this method, all equity instruments granted are measured and recognized based on the fair value of the equity instruments issued. Compensation expense for equity instruments granted to employees is recognized over the period of related employee service, usually the vesting period of the equity instrument awarded.

k) Flow-through shares

The Company may finance a portion of its exploration activities through the issuance of flow-through common shares. Under the terms of the flow-through agreement, the resource expenditure deductions for income tax purposes are renounced to investors in accordance with the appropriate income tax legislation. The Company provides for the future effect on income tax related to flow-through shares when flow-through share amounts are renounced.

l) Per share amounts

Basic and diluted earnings and net income per share are calculated using the weighted average number of voting and non-voting common shares outstanding during the year.

The Company uses the treasury stock method to determine the dilutive effect of stock options and warrants. Diluted calculations reflect the weighted average incremental common shares that would be issued upon exercise of dilutive options and warrants assuming the proceeds would be used to repurchase common shares at the average market price for the period. Anti-dilutive options and warrants are excluded from the calculation.

NOTES TO THE FINANCIAL STATEMENTS (in thousands of dollars except per share amounts)

m) Comparative figures

Certain comparative figures from the prior year have been reclassified to conform to the current year presentation.

NOTE 3: PROPERTY AND EQUIPMENT

As at December 31,	2006	2005
Oil and natural gas properties and production equipment	$ 205,600	$ 124,208
Administrative assets	374	321
	205,974	124,529
Accumulated depreciation and depletion	(29,957)	(8,297)
	$ 176,017	$ 116,232

General and administrative expenses of $1,156 (2005 – $710) and stock based compensation expenses of $537 (2005 – $Nil) were capitalized during the year in accordance with the Company's full cost accounting policy.

All property and equipment costs are subject to depletion and depreciation at December 31, 2006, with the exception of unproved property costs of $4,762 (2005 – $4,740). Future expenditures totaling $130,462 (2005 – $61,165) relating to costs to develop proved reserves and asset retirement costs associated with proved undeveloped reserves have been included in costs subject to depletion and depreciation at December 31, 2006.

The benchmark prices used in the ceiling test evaluation of the Capitol's property and equipment as forecast by Capitol's independent qualified reserves evaluator at December 31, 2006 were:

	Oil			Natural Gas	
	WTI ($US/Bbl)	Edmonton Light Crude ($C/Bbl)	Capitol Realized Price ($C/Bbl)	AECO Spot ($C/GJ)	Capitol Realized Price ($C/mcf)
2007	62.50	70.80	55.22	6.85	6.99
2008	61.20	69.30	54.75	7.05	7.23
2009	59.80	67.70	52.93	7.40	7.57
2010	58.40	66.10	52.24	7.50	7.67
2011	56.80	64.20	50.75	7.70	7.87

Escalating thereafter at approximately 2%

NOTE 4: ACQUISITION OF TIGER ENERGY LIMITED

On February 28, 2005, Capitol acquired all of the common shares of Tiger Energy Limited ("Tiger"), a Calgary based private exploration company active in west central Alberta for cash consideration of $49,352 subject to working capital adjustments pursuant to a plan of arrangement.

Tiger was wound up into Capitol upon closing. The business combination has been accounted for using the purchase method with results of operations of Tiger included in the financial statements from the date of acquisition.

NOTES TO THE FINANCIAL STATEMENTS (in thousands of dollars except per share amounts)

The calculation of the purchase price and the allocation to assets and liabilities was as follows:

Cash paid for common shares of Tiger	$	49,352
Transaction costs		162
Total purchase price	**$**	**49,514**

Fair value of assets and liabilities assumed		
Property, plant, and equipment	$	47,251
Current assets (including $3,430 of cash)		6,819
Current liabilities		(4,193)
Asset retirement obligation acquired		(363)
Total assets and liabilities assumed	**$**	**49,514**

Future income taxes payable of $11,089 resulting from temporary differences between allocated values and tax values for Tiger's assets and liabilities were eliminated through the recognition of Capitol's previously unrecognized tax assets.

NOTE 5: BANK LOAN

At December 31, 2006, the Company had a revolving credit facility of $45,000 repayable on demand and bearing interest, calculated daily and payable monthly, based on a pricing grid which varies based on Capitol's debt to cash flow ratio and the borrowing instrument utilized. At December 31, 2006, Capitol had drawn $26,723 (2005 – $Nil) against the revolving credit facility at an interest rate of bank prime plus 0.25%.

At December 31, 2006, the Company had a non-revolving development facility of $15,000, repayable on demand or at $300 per month commencing on February 28, 2007. At December 31, 2006, Capitol had drawn $7,000 (2005 – $Nil) against the non-revolving development facility at an interest rate of bank prime rate plus 0.50%, calculated daily and payable monthly.

The revolving and non-revolving development facilities are secured by a first floating charge debenture for $75,000 over the Company's oil and gas properties and are subject to an interim review by April 30, 2007.

NOTE 6: ASSET RETIREMENT OBLIGATION

As at December 31,		2006		2005
Balance, beginning of year	$	1,641	$	259
Liabilities incurred		958		877
Accretion expense		145		52
Change in estimated future cash flows		(365)		200
Liabilities settled		–		(110)
Acquired on business combination (note 4)		–		363
Balance, end of year	**$**	**2,379**	**$**	**1,641**

The Company's asset retirement obligation results from net ownership interest in oil and natural gas assets including well sites, gathering systems and processing facilities.

NOTES TO THE FINANCIAL STATEMENTS (in thousands of dollars except per share amounts)

At December 31, 2006, the Company estimates the total undiscounted amount of cash flows required to settle the asset retirement obligations is $5,641 (2005 – $4,346) with the majority of expenditures expected to be after 2026. In calculating the Company's future asset retirement obligation an annual credit adjusted risk free interest rate of 7.0% and an annual inflation rate of 2.5% were used (2005 – interest rate of 7.0%, inflation rate of 2.5%).

NOTE 7: INCOME TAXES

The provision for future income taxes recorded in the financial statements differs from the amount expected by applying applicable statutory rates. Differences are as a result of the following:

For the years ended December 31,	2006	2005
Net income (loss) before taxes	$ 4,112	$ (4,564)
Statutory Canadian corporate tax rate	34.50%	37.62%
Anticipated tax expense (recovery)	1,419	(1,717)
Non-deductible crown payments net of ARTC	1,837	848
Resource allowance	(2,074)	(937)
Stock-based compensation	1,201	1,891
Expiry of non-capital losses	–	168
Change in enacted rate	395	–
Other	92	208
Change in valuation allowance	–	(14,113)
Future income tax expense (recovery)	$ 2,870	$ (13,652)

In 2005, a future income tax recovery was recorded on the renunciation of flow-through share expenditures and the recognition of future income tax assets on a "more likely than not" basis.

During the year the Company recorded current taxes of $26 in relation to federal large corporation's tax (2005 – $88).

The components of the Company's future income tax assets and liabilities are as follows:

As at December 31.	2006	2005
Future income tax liabilities		
Net book value of property and equipment in excess of tax deductions	$ (211)	$ (5,089)
Risk management asset	(184)	–
Future income tax assets		
Non-capital loss carry-forwards	3,474	12,305
Share issue costs	1,564	1,812
Asset retirement obligation	690	552
Scientific research and development expenditures	650	754
Other	281	248
Net future income tax assets	6,264	10,582
Valuation allowance	(32)	(37)
Future income tax asset	$ 6,232	$ 10,545

NOTES TO THE FINANCIAL STATEMENTS (in thousands of dollars except per share amounts)

In conjunction with the business combination with Tiger in 2005 (note 4), the Company recognized a future income tax benefit of approximately $11,089 to eliminate future tax on the excess of allocated values over Tiger's tax basis.

The Company had approximately $195,900 of accumulated tax deductions, including non-capital losses of approximately $10,900, at December 31, 2006 for application against future taxable income.

The Company's non-capital losses expire on June 30 of the following years:

	Amount
2009	$ 4,600
2010	1,800
2013	900
2014	3,600
Non-capital losses available	**$ 10,900**

NOTE 8: SHARE CAPITAL

a) Authorized

Unlimited number of common shares without par value

Unlimited number of preferred shares to be issued in series

b) Share consolidation and conversion of non-voting common shares

Upon approvals at the Annual General and Special Meeting of voting common shareholders and the Special Meeting of non-voting common shareholders held on May 4, 2005, the Company's voting common shares were consolidated on the basis of one new common share for each five voting shares outstanding and the Company's non-voting common shares were converted into voting common shares, on the basis of one new common share or each five non-voting common shares outstanding. The non-voting common shares were then deleted as an authorized class of shares of the Company.

All information related to common shares, stock options, share warrants and per share amounts has been restated to give effect to the share consolidation and non-voting share conversion in May 2005.

NOTES TO THE FINANCIAL STATEMENTS (in thousands of dollars except per share amounts)

c) Shares issued and outstanding

	Voting	Non-Voting	Amount
Outstanding at December 31, 2004	**13,166,976**	**9,188,749**	**$ 28,178**
Issued on conversion of subscription receipts	18,181,818	–	50,000
Tax effect of flow-through shares	–	–	(5,124)
Issued on exercise of warrants	44,092	–	198
Issued on exercise of options	13,967	–	70
Non-voting shares conversion to voting shares	9,188,749	(9,188,749)	–
Private placement – flow-though shares	940,875	–	5,517
Private placement – common shares	6,452,000	–	30,002
Share issue costs	–	–	(4,994)
Tax effect of share issue costs	–	–	2,017
Outstanding at December 31, 2005	**47,988,477**	**–**	**$ 105,864**
Private placement – common shares	4,945,000	–	23,489
Issued on exercise of options	41,333	–	309
Share issue costs	–	–	(1,375)
Tax effect of share issue costs	–	–	412
Tax effect of flow-through shares	–	–	(1,855)
Outstanding at December 31, 2006	**52,974,810**	**–**	**$ 126,844**

d) Flow-through shares

The Company did not issue flow-through shares during 2006. During 2005, the Company issued common shares on a flow-through basis for gross proceeds of $5,517.

In accordance with Canadian accounting standards, foregone tax benefits on flow-through shares have been reflected as a reduction in share capital upon renouncement of amounts to shareholders.

At December 31, 2006, the Company had incurred all amounts in respect of flow-through share commitments.

e) Warrants

At December 31, 2006, 10,000 warrants with an exercise price of $19.10 and an expiry date of March 28, 2007 were outstanding to purchase the Company's shares.

During 2006, no warrants were exercised and 25,000 warrants expired. During 2005, 44,092 warrants were exercised for proceeds of $198 and 150,351 warrants expired.

f) Shares in escrow

During 2006, 4,504,576 shares were released from escrow (2005 – 683,100 shares released from escrow). At December 31, 2006, there were no shares held in escrow (2005 – 4,504,576 shares held in escrow).

NOTES TO THE FINANCIAL STATEMENTS (In thousands of dollars except per share amounts)

g) Contributed surplus

The following table summarizes changes to contributed surplus for the periods:

As at December 31,	2006	2005
Contributed surplus, beginning of year	$ 6,203	$ 1,199
Amortization of fair value of options	3,483	5,025
Exercised options	(117)	(21)
Balance, end of year	**$ 9,569**	$ 6,203

h) Shareholders' rights plan

During 2006, Capitol's Board of Directors adopted a Shareholders' Rights Plan (the "Rights Plan"). The Rights Plan's objectives are to ensure, to the extent possible, that all shareholders of the Company are treated equally and equitably in connection with any takeover bid for the Company.

The Rights Plan has been conditionally approved by the Toronto Stock Exchange, and requires approval by Capitol's shareholders by May 14, 2007.

Under the Rights Plan, one right (a "Right") has been issued in respect of each common share of the Company outstanding. The Rights trade with and are represented by the common shares. If a person, or a group acting jointly or in concert, acquires, other than pursuant to an exemption available under the Rights Plan, beneficial ownership of 20% or more of the common shares outstanding, the Rights will separate from the common shares and permit the holder to purchase common shares at a 50% discount to their market price. At any time prior to the Rights becoming exercisable, the Board of Directors may waive the operation of the Rights Plan.

The issuance of the Rights is not dilutive and does not affect earnings per share until the Rights separate from the underlying common shares and become exercisable or are exercised.

NOTE 9: STOCK OPTIONS

The following tables summarize information about options to purchase common shares:

	Number	Weighted Average Exercise Price
Outstanding at December 31, 2004	**1,166,195**	**$ 3.82**
Granted	2,241,000	4.81
Exercised	(13,967)	3.50
Forfeited	(27,933)	3.50
Outstanding at December 31, 2005	**3,365,295**	**$ 4.48**
Granted	950,200	4.81
Exercised	(41,333)	4.65
Expired	(21,891)	5.31
Forfeited	(52,667)	4.45
Outstanding at December 31, 2006	**4,199,604**	**$ 4.55**

NOTES TO THE FINANCIAL STATEMENTS (in thousands of dollars except per share amounts)

	Outstanding Options			Exercisable Options	
Range of Exercise Price	Number	Weighted average exercise price	Weighted average years to expiry	Number	Weighted average exercise price
$3.40 – $4.85	2,650,600	$ 4.19	3.3	1,818,800	$ 3.96
$5.00 – $5.50	1,529,004	5.02	3.3	1,019,671	5.02
$15.50 – $16.00	20,000	15.75	0.4	20,000	15.75
Total	**4,199,604**	**$ 4.55**	**3.3**	**2,858,471**	**$ 4.42**

Options granted have been accounted for using the fair value method. The fair value of common share options granted during the year ended December 31, 2006, is estimated to be $2.37 per option, $2,248 in total (2005 – $3.02 per option, $6,762 in total) as at the date of grant using the Black-Scholes option pricing model and the following weighted average assumptions:

For the years ended December 31,	2006	2005
Risk free interest rate	5%	5%
Expected life	5 years	5 years
Expected volatility	49%	73%
Expected dividend yield	0%	0%

The Company's options vest one third on their grant date, and one third on each of the first and second anniversary dates of the options. One third of the estimated fair value of the options is expensed on the grant date with the balance amortized to stock based compensation expense over the balance of the vesting period on a straight-line basis.

For the year ended December 31, 2006, stock based compensation costs of $3,483 (2005 – $5,025) were recognized of which $2,946 (2005 – $5,025) were expensed in the income statement and $537 (2005 – $Nil) were capitalized in accordance with the Company's full cost accounting policy.

NOTE 10: FINANCIAL INSTRUMENTS AND CREDIT RISK

a) Balance sheet

Capitol's financial instruments recognized in the balance sheet include cash and short-term investments, accounts receivable, current liabilities and the bank loan. The fair values of these financial instruments approximate their book amounts due to the short-term maturity of these instruments and the market rate of interest applied to the bank loan.

Most of the Capitol's accounts receivable relate to oil and natural gas sales and are exposed to typical industry credit risks. Capitol manages its credit risk by entering into sales contracts with only credit worthy entities. The book value of the accounts receivable reflects management's assessment of the associated credit risks.

Capitol is exposed to interest rate risk on its bank debt as a result of its floating rate.

b) Financial derivative contracts

Capitol's revenues from the sale of crude oil and natural gas are directly impacted by changes to the underlying commodity prices. To ensure that cash flows are sufficient to fund planned

NOTES TO THE FINANCIAL STATEMENTS (in thousands of dollars except per share amounts)

capital programs, Capitol commenced utilizing costless collars in November 2006 to ensure that commodity prices realized will fall into a contracted range for a contracted sales volume.

Capitol uses financial derivative contracts to reduce its exposure to fluctuating oil and gas prices. The use of financial derivative contracts exposes the Company to credit risk with the possible non-performance of counterparties to the financial instruments. Capitol limits this risk by transacting only with financial institutions with high credit ratings.

At December 31, 2006, Capitol had financial derivative contracts for the following:

Contracts	Term	Volume	Price	Index		Fair market value
Crude Oil						
WTI costless collars	2007	300 bbls/d	$60 US – $72.60 US	WTI	$	41
WTI costless collars	2007	500 bbls/d	$62 US – $70.23 US	WTI		99
WTI costless collars	2007	500 bbls/d	$60 US – $73.29 US	WTI		99
					$	239
Natural Gas						
AECO-C seasonal costless collar	2007	2000 GJ/d	$6.50 – $10.40 (Jan-Mar) $6.50 – $8.75 (Apr-Oct) $6.50 – $10.40 (Nov-Dec)	AECO	$	332

Capitol has not designated any of its financial derivative contracts as hedges and has recorded an asset of $571 at December 31, 2006 on the mark-to-market value of the outstanding financial derivative contracts. The change in the mark-to-market value of the financial derivative contracts during 2006 has been recorded as an unrealized gain on financial derivatives of $571 (2005 – $Nil) in the statement of operations.

The following table reconciles the changes in the fair value of Capitol's risk management financial instruments:

For the years ended December 31,		2006		2005
Balance beginning of year	$	–	$	–
Net change in fair value of financial derivative contracts outstanding as at December 31		571		–
Balance end of year	$	571	$	–

NOTE 11: RELATED PARTY TRANSACTIONS

a) Services

During 2006, the Company incurred costs of $94 in respect of legal services provided by a firm in which a director of the Company is a partner (2005 – $285). At December 31, 2006, a payable of $70 existed (2005 – $36).

The services were conducted in the normal course of operations and are measured at the exchange amount which is established and agreed to by the related parties based on standard rates, time spent and costs incurred.

NOTES TO THE FINANCIAL STATEMENTS (in thousands of dollars except per share amounts)

b) Shares

During 2005, management, directors and employees purchased 276,928 common shares through private placements for proceeds of $784 and 120,875 flow-through shares for $515. With the exception of shares issued pursuant to stock option agreements (note 8) management, directors and employees did not purchase any shares during 2006.

NOTE 12: COMMITMENTS

	2007	2008	2009	2010	2011	Thereafter	Total
Capital commitments	$ 700	$ –	$ –	$ –	$ –	$ –	$ 700
Office lease	261	268	246	–	–	–	775
Total	**$ 961**	**$ 268**	**$ 246**	**$ –**	**$ –**	**$ –**	**$ 1,475**

The Company has contracted two drilling rigs for a minimum of 250 days each between June 1, 2006 and May 31, 2007. The Company has the option to release one or both rigs with nominal notice.

NOTE 13: SUPPLEMENTARY INFORMATION

a) Per share amounts

The following table summarizes the common shares used in calculating net income and cash flow per share:

For the years ended December 31,	2006	2005
Weighted average common shares outstanding – basic	50,240	39,617
Effect of dilutive stock options and warrants	328	218
Weighted average common shares outstanding – diluted	50,568	39,835

The amounts above have been restated to reflect the effect of the common share consolidation in May 2005.

b) Changes in non-cash working capital

For the years ended December 31,	2006	2005
Decrease (increase) in non-cash working capital		
Accounts receivable	$ (2,118)	$ (4,700)
Other current assets	(45)	(150)
Accounts payable and accrued liabilities	(6,044)	13,785
Less amounts acquired through business combination with Tiger (note 4)	–	(804)
Net change in non-cash working capital	$ (8,207)	$ 8,131
Relating to		
Operating activities	$ (525)	$ (1,718)
Investing activities	(7,682)	9,849
	$ (8,207)	$ 8,131

c) Interest and income taxes paid

For the years ended December 31,	2006	2005
Interest paid	$ 1,512	$ 122
Income taxes paid	$ 57	$ 57

BOARD OF DIRECTORS

Johannes J. Nieuwenburg [2]
Chairman
Capitol Energy Resources Ltd.

R.L. (Monty) Bowers
President & CEO
Capitol Energy Resources Ltd.

Grant O. Billing [1,3]
Chairman & CEO
Superior Plus LP

John A. Brussa [2,3]
Partner
Burnet, Duckworth & Palmer LLP

James S.A. MacDonald [1,3]
Chairman & Managing Partner
Enterprise Capital Management Inc.

Murray N. Nunns [2]
Independent Businessman

Sheldon Reid [1]
President & CEO
Cell-Loc Location Technologies Inc.

1 *Audit Committee Member*
2 *Reserves Committee Member*
3 *Corporate Governance & Human Resources Committee Member*

OFFICERS

R.L. (Monty) Bowers
President & Chief Executive Officer

Doug Dearing
Vice President, Finance & Chief Financial Officer

D.C. (Don) Stachiw
Vice President, Exploration & Chief Operating Officer

John Lamacchia
Vice President, Engineering & Operations

John Nesbitt
Vice President, Land

BANKERS

National Bank of Canada

AUDITORS

KPMG LLP

SOLICITORS

Burnet, Duckworth & Palmer LLP

INDEPENDENT QUALIFIED RESERVES EVALUATOR

McDaniel & Associates Consultants Ltd.

REGISTRAR AND TRANSFER AGENT

Computershare Trust Company of Canada

STOCK LISTING

Toronto Stock Exchange
Symbol: CPX

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ANNUAL GENERAL MEETING

May 10, 2007 at 3:00 pm (MDT)
Metropolitan Centre
Grand Lecture Theatre
333 Fourth Avenue South West
Calgary, AB T2P 0H9

OIL AND NATURAL GAS LIQUIDS

bbls	*barrels of oil or natural gas liquids*
bbls/d	*barrels of oil or natural gas liquids per day*
mbbls	*thousands of barrels*
mmbbls	*millions of barrels of oil*
NGLs	*natural gas liquids*

NATURAL GAS

bcf	*billions of cubic feet*
GJ	*Gigajoule*
mcf	*thousands of cubic feet*
mmcf	*millions of cubic feet*
mmcf/d	*millions of cubic feet per day*

OIL EQUIVALENT

boe	*barrels of oil equivalent (6,000 cubic feet of natural gas being equivalent to one barrel of oil)*
boe/d	*barrels of oil equivalent per day*
mboe	*thousands of barrels of oil equivalent*
mmboe	*millions of barrels of oil equivalent*

OTHER

API	*American Petroleum Institute density units*
ARTC	*Alberta Royalty Tax Credit*
BA	*Banker's Acceptance*
bwpd	*barrels of water per day*
D&A	*Dry and Abandoned*
FD&A	*Finding, Development and Acquisition costs*
G&A	*General and Administrative*
MD&A	*Management's Discussion & Analysis*
OOIP	*Original Oil In Place*
sq. km	*square kilometer*
WTI	*West Texas Intermediate*
1P	*proved reserves*
2P	*proved & probable reserves*
3P	*proved & probable & possible reserves*
/d	*per day*
2D	*two dimensional seismic*
3D	*three dimensional seismic*
$000	*thousands of dollars*
$/	*dollars per*
C	*Canadian dollars*
$US	*United States dollars*

* *as per FirstEnergy FD&A Cost Analysis published August of 2006*

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apitol Energy raduates to the TSX

GARY, AB, JUNE 29, 2006

apitol Energy Resources Ltd. apitol" or the "Company") X-V: CPX), is pleased to ounce that today it has entered an agreement with Genuity ital Markets (the "Under- ter"), pursuant to which the derwriter has agreed to pur- se on a "bought deal" private cement basis, for resale to the lic, 4,300,000 common shares he Company at an issue price 4.75 per share for gross pro- ds to Capitol of $20,425,000 "Offering"). In addition, the derwriter has been granted an ion to purchase up to an addi-

a price of $4.75 per share fo tional proceeds of $3,06 exercis closing

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closing date.

Proceeds of the Offering will be used to optimize the Company's development program at Dixonville, complimentary exploration activities in the Dixonville area and for general working capital

Capitol closes fina and increases budg

Capitol Energy Resources Ltd. has closed its previously announced "bought deal" private placement of 4.95 million common shares at a price of $4.75 per common share, including 645,000 common shares issued pursuant to the exercise of an option granted to the underwriters at a price of $4.75 per common share for gross proceeds of approximately $23.5 million.

The shares are subject to a four-month hold period such that the shares may not be traded before Nov. 21, 2006.

The syndicate of underwriters was led by Genuity Capital Markets and included Sprott Securities Inc., FirstEnergy Capital Corp., RBC Capital Markets Inc., Tristone Capital Inc., Orion Securities Inc. and Paradigm Capital Inc.

Proceeds of the offering will be used to expand development at Dixonville, and complimentary exploration activities in the

apitol announces strong reserves

ALGARY, AB, MARCH 1, 2006

Capitol Energy Resources Ltd. Capitol" or the "Company") (TSX- CPX), is pleased to announce its 05 year-end reserves as evaluated

recovery rate of 7.8%. Analog oil po in Alberta have demonstrated a prim recovery rate in excess of 10%.

- Capitol has completed extens reservoir studies and water injecti tests as the first steps to implement